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Tuesday January 15 1991

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US CAR INDUSTRY
Move over for the Japanese
Page 19

World News

Pavlov takes over as next Soviet prime minister

Valentin Pavlov, the 53-year old Soviet finance minister, was confirmed as prime minister by the Soviet parliament. His appointment means that a technocrat, rather than a party official, now heads the government which will be very much under the direct control of President Mikhail Gorbachev. Page 6

Close to accord

The Philippines said it was close to forging an agreement with the US to extend the lease on its military bases, including the use of Clark airbase and Subic naval dockyard. The lease expires in September. Tokyo may help pay for US bases, Page 4

Albanian exodus

Albanian refugees continued to flee across the border illegally into Greece despite appeals from Constantine Mitsotakis, the Greek prime minister, to try to stem the flow. More than 7,000 have fled since last month.

Ershad misses out

Bangladesh blamed "irregularities" for scrapping all five applications filed by former president Hossain Mohammad Ershad to contest parliamentary elections. Nearly 4,000 candidates have applied to contest 300 seats.

Iliescu state visit

Romanian President Ion Iliescu arrived in China on an official visit, the first by a head of state from eastern Europe since communism began to fall there in 1989.

Rwanda warning

Rwanda said that rebels who invaded the small central African country on October 1 are preparing a big new attack from neighbouring Uganda, and called on the international community to condemn the rebel plans.

Court allows gun ban

The US Supreme Court refused to recognise a constitutional right to own machine guns. The National Rifle Association had argued that the machine gun ban violated the second amendment right "to keep and bear arms".

Afghani pardon

The Soviet-backed government in Afghanistan declared an immediate amnesty for prisoners held for up to three years to mark the fourth anniversary of a government drive for reconciliation.

SA death toll rises

Three more blacks died from injuries sustained during a weekend attack on a South African township funeral wake, bringing the death toll to 38. Education black marks, Page 4

Bougainville hope

Father John Momis, Papua New Guinea's minister for provincial affairs, said stalled peace talks aimed at ending a secessionest rebellion on the South Pacific island of Bougainville would resume in Honiara next week,

Child death probe

Brazil is investigating the alleged involvement of businessmen in financing "death squads" to assassinate children living on city streets. Page 7; Collor's inflation crusade, Page 7

Bus plunge kills 18

At least 18 people were killed and seven others missing after a bus slid down a ravine and plunged into a river near the village of Dapitan City, southern Philippines.

A year to remember

The British government has proposed in a draft parliamentary order that history stopped in 1950. All events after that year are officially "current affairs". Page 9

Business Summary

KPMG Peat Marwick to lay-off over 300 in US

KPMG Peat Marwick McLintock, world's largest accountancy firm, is planning to lay off one sixth of its 1,875 partners in the US. The move is the latest evidence of a serious recession in the US accountancy profession where two prominent firms have closed down since last November. Page 19

DEUTSCHE BANK, Germany's biggest bank and one of the west's largest lenders to Moscow, is to establish risk provisions on loans to the Soviet Union, publicly downgrading its top credit rating. Page 18

ASTRA, Swedish pharmaceutical group, suffered an unexpected blow after the US Food and Drug Administration did not approve Losec, its anti-ulcer drug, for use in the first-line treatment of all ulcers. Page 19

HONGKONG and SHANGHAI Banking Corporation has moved to take direct control of James Capel, its London-based broking subsidiary which has made heavy losses, by appointing a new executive chairman. Page 19

JP MORGAN, New York banking group, continued to buck the dismal trend in US commercial banking by reporting a 24 per cent rise in fourth quarter net income, to $191m or 96 cents a share. Page 19.

ROCHE, Swiss pharmaceuticals and chemicals group, reported a 3 per cent increase to SFr9.65bn ($7.6bn) in sales in 1990. Page 20

ELF Aquitaine, French state-controlled oil group, is hoping to buy Ertoil, Spanish petrochemical producer, to expand its downstream operations in Spain. Page 20

NCR, Ohio computer company that is the target of a $6.1bn hostile takeover bid from American Telephone & Telegraph, revealed a 24 per cent slump in net earnings for the fourth quarter of 1990 to $111m. Page 22

UNITED Saudi Commercial Bank posted a 31 per cent advance in annual net profits to SR125.3m ($33m) despite the shock of the Gulf crisis. Page 23; Bahrain's biggest bank moves operation, Page 4

CHILE has become the first Latin American country to secure a voluntary syndicated commercial bank credit since the 1982 debt crisis. Page 24

JAPAN's sales of imported cars last year rose by 22.9 per cent to a fifth consecutive record. Page 4

SENATE agriculture committee chairman, Senator Patrick Leahy, has introduced legislation to settle the long-running dispute between the Commodity Futures Trading Commission, futures regulator, and the Securities and Exchange Commission, securities regulator. Page 22

BANK OF Nova Scotia is taking advantage of Chile's improved economic outlook by buying a 24 per cent stake in Banco Sud Americano, the country's sixth biggest bank for $20.7m. Page 22

SOUTH KOREA's president, Mr Roh Tae Woo, ordered his economic ministers to reduce the country's rate of inflation, following last year's 9.4 per cent increase in consumer prices. Page 4

CENTRAL American states and Mexico have taken a tentative step towards integrating their economies by signing a framework free-trade agreement. Page 7

BRAZILIAN government has officially closed its coffers to Embraer, state-owned aircraft manufacturer, forcing the ailing group to embark an another big cost-cutting programme to remain in operation. Page 22

France launches last-minute peace initiative as Iraqi assembly endorses seizure of Kuwait

Saddam ignores UN deadline

By Ian Davidson in Paris, David Buchan in Brussels and Peter Riddell in Washington

ALL sides in the Gulf crisis yesterday braced themselves for war as tonight's United Nations deadline neared, while France signalled a last-minute peace initiative.

Mr Jack Lang, the French culture minister, said last night France was about to unveil a new proposal to the UN Security Council. The world body was due to hear a report early today from Mr Javier Pérez de Cuéllar, the UN secretary-general, on his apparently unsuccessful mission to Baghdad last week.

Iraq's ambassador to the UN, Mr Abdul Amir al-Anbari, said that Mr Roland Dumas, the French foreign minister, would probably go to Baghdad.

The much talked-of French peace initiative seemed to be emerging after European foreign ministers, meeting in Brussels, ruled out any further approach to President Saddam Hussein of Iraq.

In Baghdad, meanwhile, the Iraqi National Assembly endorsed President Saddam's decision to retain Kuwait as the country's 19th province.

In Washington, the White House said that President George Bush had not taken a final decision on whether to go to war, but warned in a sombre mood that "any moment after the 15th is borrowed time". As tension in the Gulf rose, Israeli armed forces went on to a high state of alert.

The impasse on the diplomatic front was underlined by Mr Pérez de Cuéllar, who repeated the negative message he gleaned from his talks in the Iraqi capital on Sunday with President Saddam.

EC foreign ministers later held an emergency session and decided against going ahead with proposals to send a negotiating mission to Iraq.

The EC ministers concluded that "the conditions for a new European initiative do not exist as of this moment". Their statement was a litany of the Community's failed efforts to interest President Saddam to pull out of Kuwait and seemed designed to brace European public opinion for a likely conflict in the Gulf.

This left only President François Mitterrand of France as a possible avenue of mediation. Mr Pérez de Cuéllar, after calling on President Mitterrand in Paris on his way back to New York to report to the UN Security Council, said: "I made no progress in Baghdad. I do no think that today, the 14th, at this hour, there is any longer a place for a diplomatic initiative."

Before leaving for New York, Mr Pérez de Cuéllar, briefed Mr Jacques Poos, Luxembourg foreign minister and current chairman of the European Community Council. Mr Poos said before leaving for Brussels to meet his EC colleagues: "It is five minutes to midnight. There is still a chance of peace, but it is shrinking from minute to minute."

The Luxembourg foreign minister said that during the UN chief's meeting with President Saddam on Sunday, "at no time, and in no way, was there any reference by Iraq to respecting the conditions and deadlines for restoring Kuwait's sovereignty".

The Iraqi president, at one point during this meeting, "got out a map, drew a line across Kuwait and said Iraq would stay in the main part of Kuwait", but without indicating he was in favour of partial evacuation, Mr Poos said.

The Gulf crisis dominated a lunch meeting between President Mitterrand and Mr John Major, Britain's prime minister, on a brief visit to Paris. Mr Major expressed disappointment at the failure of Mr Pérez de Cuéllar's mission.

"It is hard to see what could be offered to Baghdad that has not already been offered", Mr Major added. "We sincerely hope that there will be no need to resort to force, but time is running out for Iraq to make a clear and decisive gesture and withdraw from Kuwait."

Mr Major said his talk with President Mitterrand had confirmed a "complete identity of views" between the two governments on the necessity for Iraq to comply with the UN Security Council resolutions and withdraw from Kuwait.

End of the road: Pérez de Cuéllar, UN secretary-general, looking weary on arrival in Paris from Baghdad yesterday for talks with President François Mitterrand of France

ON OTHER PAGES

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● **Israel braced**......Page 2
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Yesterday evening the French government took the necessary powers to be able to requisition civil aviation in the event of war in the Gulf.

The step, designed to ensure the availability of airline capacity for ferrying medical and other supplies out to the Gulf, as well as for the possible repatriation of casualties, had been made necessary by the cancellation of regular flights to most destinations in the Gulf region by the world's civil airlines

Two Arab attempts at finding some diplomatic movement remained in play last night with both the Libyan and Yemeni government delegations in Baghdad. The Iraqi media, however, made no reference to negotiations, focusing instead on the decision by the National Assembly to back President Saddam.

The 250-seat assembly expressed "the preparedness of the Iraqi people to stand up to the designs of aggression led by the US."

European shares fall, oil rises on war fear

FEAR of war gripped financial markets yesterday, sending shares sliding across Europe and driving oil prices up by $3 a barrel, write Peter Marsh and Deborah Hargreaves in London.

The bloodshed in Lithuania added to nervousness. As worries grew about the possibility of further turmoil in the Soviet Union, the Paris and Frankfurt bourses closed at their lowest levels for about two years.

Fears were expressed that tension in Lithuania could spill over to other parts of eastern Europe and harm business prospects, particularly for German industry. Reflecting this, the D-Mark weakened, allowing sterling to climb 2 pfennigs. The pound's London close of DM2.9425, its highest since November 1, was near its DM2.95 central rate in the European exchange rate mechanism.

Bourses across Europe lost ground as war fears grew. The markets in Paris, Frankfurt, Milan, Amsterdam and Madrid closed between 2.8 per cent and 3.9 per cent lower.

In London, the FT-SE index fell 25.3 to 2,080.8, and government bonds lost about 1 point. Wall Street was afflicted by the same nervous mood and the Dow Jones Industrial Average closed 17.58 down at 2,483.91.

Gold, a traditional haven for investors in times of crisis, rose $7 an ounce to $397.75.

North Sea Brent crude for delivery in February rose $3.40 a barrel to $29.30, but market volume was low amid uncertainty about the possible duration of a war.

Yeltsin challenges the Kremlin over Baltic repression

By Quentin Peel in Moscow and Leyla Boulton in Vilnius

MR BORIS Yeltsin, the popular president of the Russian federation, yesterday challenged head-on both President Mikhail Gorbachev and the Soviet military high command over the confrontation in the Baltic republics.

He denounced the military action in Lithuania, and the threat of similar violent measures in both Latvia and Estonia, and called on Russian soldiers to refuse to take part, while promising to set up his own independent Russian army.

This came as as military commanders in the the Baltic appeared to be preparing a coup in Latvia identical to that in Lithuania, in conjunction with the pro-Soviet rump of the republican Communist Party. Meanwhile, the people of Lithuania began three days of mass mourning for the victims of the weekend tank assault on their television station.

The bloodshed in Vilnius prompted the White House to warn that next month's Bush-Gorbachev summit planned in Moscow was now "up in the air" and to raise the prospect of economic sanctions against the Soviet Union.

EC foreign ministers said that technical aid to the Soviet Union worth Ecus400m ($540.4m) would be suspended if the Kremlin continued to use force rather than negotiation.

Mr Gorbachev denied having issued the order for Red Army troops and tanks to attack unarmed demonstrators in Vilnius, the Lithuanian capital, and appeared to blame the confrontation on the Lithuanian leaders, not the military.

"We did not want, and do not want, this," he said.

However, although he called for a political solution, he insisted that the republic was in a state of popular confrontation between pro- and anti-Moscow factions, ignoring the overwhelming support for the Lithuanian independence movement.

He also suggested to journalists that the regular army tank force and troops who stormed the television station had quite justifiably been made available as a "guard" for the self-proclaimed National Salvation Committee (a shadowy body whose members have still not been revealed).

In contrast, Mr Yeltsin yesterday identified the military action in Lithuania as "the beginning of a mighty offensive against democracy", and warned that his own Russian federation would be the next in the firing line after the Baltics.

He disclosed that the four biggest republics in the union – Russia, the

Continued on Page 18

● Risk provisions on loans to the Soviet Union, publicly downgrading the country's previously top credit rating, are to be established by Deutsche Bank, Germany's biggest bank and one of the west's largest lenders to Moscow......Page 18
● Latvians prepare to defy Soviet might; Yeltsin appeals to Russian troops; US-Soviet ties on the line......Page 6
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Occidental chief begins radical restructuring, writes off $2bn

By Martin Dickson in New York

Just five weeks after the death of Dr Armand Hammer, Occidental Petroleum's iron-willed chairman, his successor embarked yesterday on a radical restructuring of the group.

It will include a $3bn reduction of debt through asset sales and a sharp cut in the annual dividend. The moves will also mean a $2bn fourth quarter write-off.

The announcement by Mr Ray Irani, the energy group's new chairman, sharply reverses many of the policies pursued by Dr Hammer, who in 35 years built Occidental from humble beginnings into one of the top 20 corporations in the US, measured by revenue.

Dr Hammer led the company on an idiosyncratic diversification trail which took it far from its core oil and chemicals activities and loaded it down with $8bn of debt.

With a poor record of earnings growth, Occidental's share price was underpinned by its very generous dividend, which Dr Hammer refused to cut, even though in recent years it was nowhere near covered by income. Mr Irani, who was Dr Hammer's chosen successor, said the "new Oxy" now intended to focus on its expertise in oil, gas and chemicals and on a "more prudent" debt policy.

The $3bn of asset sales, together with other restructuring moves, would cut long-term borrowings by 40 per cent and give the company a debt-to-equity ratio of 45 per cent.

There would be "no sacred cows" among Occidental's operations as it weighed asset sales, which he expected to complete in two years.

Mr Irani pinpointed IBP, one of the largest beef and pork processors in the US, as a prime candidate for disposal. Occidental owns 51 per cent of the business.

He added that it might be necessary to sell assets in its core businesses to meet the debt reduction goal.

To conserve cash, Occidental is cutting its annual dividend from $2.50 a share to $1.

Mr Irani said the new target was a pay-out of 50 per cent of earnings – broadly in line with the oil industry average. The group will also cut costs and eliminate losses by selling off unprofitable businesses or quitting joint ventures.

Many of these were pet projects of Dr Hammer, including Occidental's interests in the An Tai Bao coalmine joint venture in China, which lost the company $31m last year, and the Tengiz petrochemicals project in the Soviet Union.

It will also get out of Black Angus cattle breeding, the raising of Arabian horses, hotel operations in Nigeria and Peking, film production and hybrid seed research and development.

Despite the dividend cut, Occidental's shares closed up $¾ at $17¾, helped in part by rising oil prices. Standard & Poors, the credit agency, upgraded the company's debt ratings, saying yesterday's moves represented a "major shift in financial policy and raises the potential that over the longer term credit quality may improve further."

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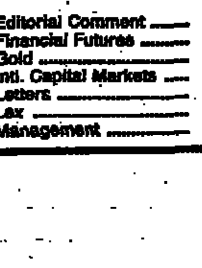
Gulf war could leave Gatt talks in indefinite limbo



If war breaks out in the Gulf, agreement on a new world trade regime will be suspended indefinitely. Even if it does not, Gatt chief Arthur Dunkel will have little hope to offer today's meeting of delegates Page 18

MARKETS

STERLING
New York
$1.9055 (1.9075)
London:
$1.905 (1.907)
DM2.9425 (2.9225)
FFr9.9775 (9.9175)
SFr2.4425 (2.44)
Y257.25 (256)
£ index 94.2 (93.7)

GOLD
New York: Comex Feb
$401.6 (393.3)
London:
$398.25 (391.15)

N SEA OIL (Argus)
Brent Feb
$28.45 (26.1)

Chief price changes yesterday: Page 19

DOLLAR
New York
DM1.54395 (1.531)
FFr5.2375 (5.1905)
SFr1.2825 (1.279)
Y135.15 (134.0)
London:
DM1.5445 (1.5325)
FFr5.2375 (5.2)
SFr1.2825 (1.2795)
Y135.0 (134.2)
$ index 62.0 (61.8)
Tokyo close: Y135.35

US closing rates
Fed Funds $6\frac{3}{4}$% ($6\frac{1}{2}$)
3-mo Treasury Bills:
yield: 6.288% (6.32)
Long Bond:
$104\frac{3}{16}$ (same)
yield: 8.359% (8.36)

STOCK INDICES
FT-SE 100:
2,080.8 (−25.3)
FT Ordinary:
1,627.9 (−18.1)
FT-A All-Share:
1,000.17 (−1.2%)
New York:
DJ Ind. Av.
2,483.91 (−17.58)
S&P Comp
312.49 (−2.74)
Tokyo: Nikkei
23,213.23 (−27.79)

LONDON MONEY
3-month Interbank:
closing $13\frac{31}{32}$% (same)
Liffe long gilt future:
Mar $89\frac{2}{32}$ ($90\frac{3}{16}$)

MIDDLE EAST IN CRISIS

British MPs find ways of not voting on action

By **Ivo Dawnay**, Political Correspondent

AS THE British parliament prepared for today's debate on the Gulf crisis, there were suspicions yesterday among Labour opponents of a war that the government has been giving opposition leaders a helping hand through the minefield.

Disgruntled critics of the arrangements for the debate pointed out that the procedures now adopted allow party leaders to dodge the issue of voting on military intervention.

Unlike the US Congress, parliament is not being asked its opinion on that question. By using what is known as an adjournment debate procedure, the Commons is merely being asked, in effect, to approve the government's conduct of the crisis to date.

Officials close to the Labour leadership made a point last night of assuring inquirers that this decision had been taken by the government under no pressure whatever from Mr Neil Kinnock, the Labour leader.

Nonetheless, there can be little doubt that it is in Labour's interest, and, equally, that of the government, that the issue of whether Britain should go to war should not come to the vote.

Both parties are more than aware that the Gulf crisis and its outcome is bound to have some bearing on their fortunes at the general election that must be held within 18 months. Neither is in a hurry to break down what is something close to a tacit bipartisan position just yet.

For some hard-line Tories, Labour's nerves over the mounting possibility of war are signals of endemic spinelessness. But not even the most partisan opponent of the socialists can see an argument for playing party politics when British soldiers may be just 24 hours from going into action.

The search for maximum national consensus is close to the heart of the government. Last night, Mr John Major, the prime minister, was meeting church leaders to explain how the country finds itself on the brink of war and seek their support.

He has already held confidential talks with Mr Kinnock and plans to meet Mr Paddy Ashdown, leader of the centrist Liberal Democrats, and even Mr Edward Heath, the former Tory prime minister, who has consistently argued for a diplomatic solution to the crisis.

Of the Liberal Democrats, Mr Major need have no fear. Yesterday, they argued for a specific motion endorsing "whatever means are necessary to free Kuwait", to prove their support for military action and their objection to leaving the waters muddied.

For the Conservative government, however, the waters can be as muddy as necessary to keep Labour on side.

Labour's leaders, meanwhile, are determined to hold their parliamentary troops together as well as possible in difficult circumstances. The glue, applied once again by the leadership in briefings and statements yesterday, is that the party supports not the government but the United Nations.

But it was also made clear to dissenters that nothing less than full backing for the British servicemen will be demanded should conflict begin. "If, regrettably, armed conflict does occur, the British forces will have our total support," Mr Jack Cunningham, shadow leader of the House, emphasised yesterday.

Despite this, the Labour leadership's official position remains that sanctions are the best route out of the crisis. Last week, the shadow cabinet backed a symbolic motion, to be tabled but not debated, arguing that military action should not be taken "before sanctions have been in operation long enough to have the maximum impact".

There are no doubts that if the shooting starts, the party establishment will rally to the flag, arguing that the case for or against war will only be able to be judged once all the unknown factors behind the decision come to light.

That said, Labour whips are well aware of the anguish among their reluctant MPs. In the last Gulf debate in December, 128 Labour MPs voted with their leaders and the government, 42 voted against, and the remaining 51 were absent or abstained.

Taken together and discounting those who were genuinely absent on urgent business elsewhere, these latter two figures suggested that at least a third of the party differed from the leadership's carefully-honed line.

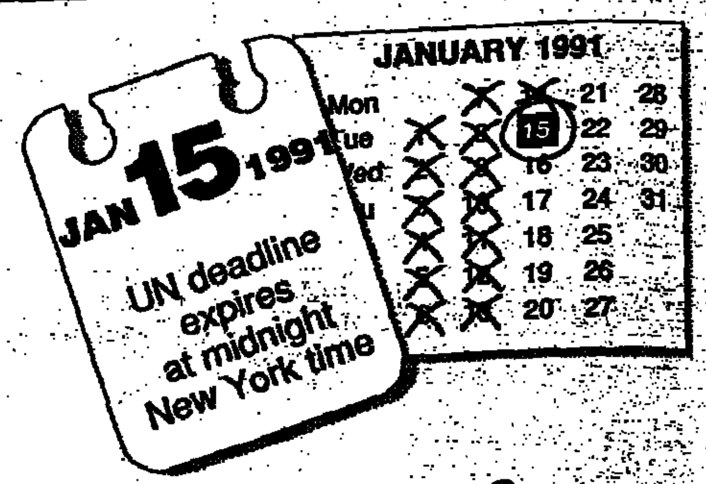
Last night, Mr Tony Benn, the left-wing leader of the dissenters, tabled a motion for the record specifically declining to back military action against Iraq.

Few believe that position will win much more than 50 or 60 votes tonight, when MPs vote on the wholly symbolic question of whether to adjourn the house. But all eyes will focus on the level of abstentions and absenteeism.

Mr Dennis Skinner, another prominent dissenter, predicted last night that once a war began abstentions would increase substantially.

But, in the short term at least, Labour organisers can only hope that the total of dissenters and abstainers combined remains well below the total of those voting with the leadership and the government.

And that if war comes, it is over quickly.



Baghdad war fever brings airport panic

By **Tony Walker** in Baghdad

PANICKY foreigners besieged Baghdad airport yesterday in an effort to catch one of the last aircraft out of the Iraqi capital before the United Nations deadline.

The gloomy news overnight of the failure of the peace mission to Iraqi capital by the UN secretary-general, Mr Javier Pérez de Cuéllar, reinforced a jittery mood here as war preparations were stepped up.

Only two international passenger flights left Saddam International airport yesterday – one to Amman and the other to Sofia. Both were solidly booked.

With war seemingly inevitable, barring a miracle, Baghdad's few remaining diplomats, except for the Soviets and some Arab representatives, were leaving town. At Saddam airport, worry was almost palpable among passengers scrambling for boarding passes which were being handed out on a virtually first-come, first-served basis. There was no seat allocation and no reference to computer screens.

Rumours also spread through the airport terminal that yesterday's flights would be the last out of the country until the crisis eases. The airport, it was said, was being closed to civilian aircraft, in preparation for hostilities.

Like so many other rumours in the Iraqi capital these days, this was impossible to confirm. But it added to the unease that has gripped the dwindling foreign contingent in the past 24 hours.

Five statements by President Saddam Hussein, in which he seemed almost to invite war, added to the foreboding. And in a sign that the country is now moving on to a war footing preparations in Baghdad itself for hostilities are becoming more noticeable.

The local militia is more active on the streets, there is more activity around the anti-aircraft gun sites, and masking tape is beginning to appear on windows to stop them shattering under the impact of bomb blasts.

Ferry landing lights are being prepared near bridges across the muddy Tigris – in the expectation that the bridges themselves might become a target in the event of war.

President Saddam himself is seen even more in the public eye these days, if that is possible, and his every statement is read or listened to with obsessive interest.

"If they want war, no other power can stop it," he said in a pre-dawn television address calling on Iraqis to fight to hold Kuwait.

"The time of capitulation has gone for ever. It does not exist in the Iraqi vocabulary," he declared. These are the defiant words of a defiant leader. Baghdad was bracing itself for the worst and hoping for the best, although peace prospects seem bleak indeed.

French assembly expected to back use of force

By **Ian Davidson** in Paris

PRESIDENT François Mitterrand is ready to seek the national assembly's support for the use of military force in the Gulf, and all the indications are that he is likely to get it.

But a decision to go to war, deeply unpopular with a large slice of public opinion, would be carried in the assembly over the protests of a vocal minority wing of the governing Socialist Party (PS).

The most recent opinion poll shows a large majority of the population opposed to a war on any grounds. In the assembly, however, virtually all the Socialist deputies are likely to line up behind the government, following heavy pressure from the party leadership last week.

Mr Jean-Pierre Chevènement, the defence minister, and his followers in the dissenting wing of the party known as Socialisme et République, have repeatedly advertised their hostility to the war option. As recently as last Monday, they published a policy statement denouncing what President Mitterrand himself termed the "logic of war".

But Mr Chevènement was reportedly asked by the Mr Mitterrand to stay at his post, and last Thursday, while continuing to warn against the "murderous" nature of a war in the Gulf, he publicly made clear that he would carry out the president's instructions, including instructions to wage war.

The traditional conservative opposition parties will finalise their position on a parliamentary vote today.

The two national leaders, Mr Jacques Chirac for the Gaullists and Mr Valéry Giscard d'Estaing for the UDF group, have until now given moderate support to President Mitterrand's Gulf policy, (apart from an eccentric wobble by Mr Chirac last October), and it seems unlikely that their followers will seek to undermine the government on the eve of a conflict.

Much will depend on the terms in which the government frames its parliamentary resolution. It is already clear that it will not take the form of a declaration of war under Article 35 of the Constitution, since France will not be conducting a war with Iraq, but merely carrying out UN Security Council policy.

Instead, the government is likely to present a general statement of policy, which will then be subject to a vote.

The precise constitutional importance of the assembly vote seems to be in some doubt, however.

Last week the Elysée Palace was claiming that parliamentary approval was not absolutely required for policies which had already been decided, and would continue to be decided, under the president's authority. The purpose of the national assembly debate was merely to permit the nation's representatives to be associated with the President's decisions.

Even if this is the strict constitutional position, however, the government is unlikely to adopt an attitude of such disdain inside the Palais Bourbon. The parliamentary vote will obviously acquire an importance of its own, which is bound to be measured by the size of the government's majority. Were the government to be defeated, the prime minister would have little choice but to resign.

The conservative opposition parties are only likely to be strongly critical of the resolution, if it appears designed to secure a general vote of support for government policies, outside the Gulf crisis.

On the other hand, the war option in the Gulf will undoubtedly be opposed by the Communists in the assembly, as well as by the extreme right-wing National Front party outside.

Iraqi members of parliament vote yesterday to fight to hold on to Kuwait in defiance of the United Nations ultimatum

Deputies vote for 'historic confrontation'

By **Lamis Andoni** and **Tony Walker** in Baghdad

IRAQ'S national assembly, in a highly charged special session, voted yesterday to confront the US in the Gulf and resist all attempts to force an Iraqi withdrawal from Kuwait.

But at the same time the assembly, which acts as a rubber stamp for decisions taken by Iraq's Ba'athist rulers, also "voted" special constitutional powers for President Saddam Hussein "for whatever (he) needed."

In Baghdad, this was being interpreted positively by some Iraqis as a sign the regime was preparing the ground for the president to make an adventurous decision to sue for peace.

But public statements by Iraqi leaders suggested they had virtually accepted the inevitability of conflict.

President Saddam, in an interview with Iraqi journalists soon after his failed talks on Sunday night with Mr Javier Pérez de Cuéllar, the visiting UN secretary-general, called on his people to fight to the death to hold on to Kuwait.

"Kuwait has become yours and you may have to die. . . because the now is not only a matter of a province which is part of Iraq. . . Kuwait has become a symbol for the whole Arab nation," Saddam said in an interview broadcast on Iraqi television.

The Iraqi leader was reported to be equally determined in private conversations to confront the might of the US as he has been in his public utterances.

Iraq's 250 assembly members voted by acclamation for a resolution which declared: "This is an historic confrontation. . . Steadfast Iraq led by Saddam Hussein has resolved to fight".

Reuter reported that minutes after the assembly vote, several hundred demonstrators took to the streets calling for chemical weapons to be used against US troops massed in Saudi Arabia.

The assembly resolution was seen as a response to the US Congress decision at the weekend to authorise President George Bush to use force to remove Iraq from Kuwait.

Arafat prepares PLO for war

MR YASSIR ARAFAT, who has said repeatedly his men will stand by Iraq in time of war, has ordered his Palestine Liberation Organisation guerrillas in Lebanon to prepare for conflict, Our Middle East Staff reports.

The PLO leader, who said in Baghdad on Sunday there would not be a war in the Gulf, is Iraq's most enthusiastic supporter among Arab rulers.

He has ordered his men throughout the Middle East to support Iraq, and has offered to mobilise about 10,000 PLO fighters in Iraq to join the battle.

A PLO official was quoted in Lebanon yesterday as saying that Mr Arafat issued orders to his men to "be ready to fight on Iraq's side in any possible war in the Gulf."

The tiny PLO force will hardly make much difference in a full scale Gulf conflict, but Mr Arafat's continuing gestures of support of Iraq are likely to further infuriate the wealthy Gulf states and Egypt which have hitherto, been his main supporters.

Europeans face moment of choice

By **David Buchan** in Brussels

IN THE waning hours before the United Nations deadline many European governments are having to decide whether to join a US-led attack on Iraq.

Among EC states only Italy and to a lesser extent the Netherlands look like joining Britain and France in making an active European contribution in a war.

The Italian government, the only one apart from Britain and France to send aircraft (Tornado fighter-bombers) to Saudi Arabia, is expected to request parliamentary approval tomorrow for its forces to take part in "an international policing action". The wording gets around the disapproval in the Italian constitution of war as a means of conflict resolution.

Earlier this month, the Netherlands said its two frigates patrolling the Strait of Hormuz as part of a joint West European Union (WEU) unit, would take part in a war if this proved necessary to enforce UN resolutions. By contrast, Belgium, Spain and Portugal have made it clear that their ships will do nothing more than continue to enforce the naval blockade of Iraqi ships.

However, wider European participation is possible through a reinforcement of Nato naval forces in the Eastern Mediterranean where Germany has deployed minesweepers. Along with Belgium and Italy it has also sent aircraft to Turkey.

Members of the nine nation WEU are expected to convene under Germany's presidency in Paris on Thursday to see whether the organisation's peacetime role of co-ordinating European naval forces in the Gulf can be continued in war.

The will to fight varies according to the ideological composition of governments and ethnic mix of populations. In Belgium, for instance, the presence of strongly anti-war Flemish socialists in the ruling coalition and nearly 150,000 North Africans in the population have driven Prime Minister Wilfried Martens to declare publicly his two mine-hunters will avoid all hostilities.

This is in contrast to the tougher attitude taken by the Dutch government, which includes socialists in the ruling coalition and has some 133,000 North African voters.

Other countries with sizeable Maghreb communities - themselves quite sympathetic to President Saddam Hussein, or at least to his championing of the Palestinian cause are: France (with 1.4m North Africans in 1986), the Netherlands (133,000), Germany (78,000), Italy (20,000) and Spain (11,000). These official statistics drawn from a 1990 Commission report are probably sizeable underestimates in the cases of Italy and Spain.

It is hardly surprising that the main push for a separate and distinct EC peace initiative, quashed repeatedly by Iraq, has come mainly from southern Europe - France, Italy, Spain, plus Belgium and Germany. This last country is forbidden by its constitution to send forces outside the Nato area.

In most cases, the countries most resistant to EC diplomatic initiatives on the grounds that they would confuse the signals being sent to Iraq are those firmest in support of military action as a last resort. France, however, may prove the exception in turning from the EC's chief "peacenik" to a main combatant.

Israel dismisses Palestine link

By **Hugh Carnegy** in Jerusalem

ISRAEL, braced for a threatened Iraqi attack as peace hopes ebbed in the Gulf, yesterday dismissed as "pure nonsense" efforts by Baghdad to portray the Palestinian issue as its main interest in the conflict.

Responding to President Saddam Hussein's attempts to win over Arab opinion by championing the Palestinian cause, the Foreign Ministry said the root cause of the Gulf conflict was Iraq's aggression against Kuwait.

"No one seriously believes that Iraq attacked Kuwait, tortured and murdered many of its citizens and took hostages in order to aid the Palestinian cause," it said.

The armed forces were reported yesterday to have been placed on maximum alert in case Iraq attacked Israel before the expiry of the United Nations deadline for it to quit Kuwait in an effort to split the US-led alliance of western and Arab forces.

Israel has been annoyed at pressure from Washington not to respond to an attack, to avoid allowing Mr Saddam to shift the focus of conflict away from Kuwait. The Foreign Ministry said Israel was "the only country that is facing an explicit threat, a blatant threat from Saddam Hussein" and reiterated that defence of the country remained "the sole responsibility of the government of Israel".

However, the government is keen not to play into Baghdad's hands. Commenting on lengthy weekend talks in which a US delegation led by Mr Lawrence Eagleburger, the deputy secretary of state, apparently sought to persuade Israeli leaders to keep out of a war, the Foreign Ministry said the discussions were part of intensive recent contacts between the two sides and stressed Israel's full backing for US policy in the Gulf.

Although ministers have not given any public hint that they would refrain from retaliating against an attack, they have promised not to launch a pre-emptive strike.

Senior opposition figures have also said the scope of an Israeli response should depend on the seriousness of any Iraqi strike.

General Dan Shomron, the chief of staff, has pointed out that the Iraqi threat is limited and poses no threat to the state's existence. Mr Yitzhak Rabin, former prime minister and defence minister, said in a radio interview that the huge US-led force facing Iraq was greatly to Israel's advantage.

"There's no doubt that from this aspect, Israel is in the best situation it ever was on the eve of a war."

Nevertheless, public anxiety about the possibility of chemical missile attack has continued to mount. Yesterday, a hospital in Tel Aviv, the likely target of Iraqi missiles, carried out a full-scale civil defence exercise.

It also emerged that the military were distributing gas masks to Jewish settlers in the occupied territories, but not to the Arab inhabitants. But an appeal by a Bethlehem woman won an order by the Supreme Court for immediate distribution to Palestinians as well.

Meanwhile, a 12-year-old Palestinian boy was shot dead in the West Bank town of Ramallah during a wave of demonstrations across the occupied territories — where public sympathy runs heavily in Iraq's favour — against war in the Gulf.

Al-Sabah member would accept flattening of Kuwait

By **Victor Mallet** in Dhahran

A SENIOR member of the exiled Kuwaiti ruling family said last night that he would accept the "flattening" of his country if that was the only way to liberate Kuwait.

Sheikh Ali al-Sabah, governor of Kuwait's Ahmadi province and nephew of Sheikh Jaber, the Emir, said that 350,000-400,000 Kuwaitis (more than half the population) had fled the country.

"We have already lost our land," he told a news conference. "We have already lost a lot of our infrastructure. So we really don't have a lot to lose. I don't want it to be flattened, but, if the flattening of Kuwait is the liberation of Kuwait, I would have that."

Sheikh Ali said about 2,000 Kuwaitis had been killed since the invasion. He also claimed, without giving details, that 10,000 were being held hostage, and said 300-400 young men had been taken to Iraq in the past few days, possibly to be used as "human shields".

Like other members of the al-Sabah family, he seemed to rule out fundamental democratic reforms in a liberated Kuwait, and, in what was almost certainly a reference to Palestinians alleged to have collaborated with Iraq, said Kuwait would have to be much more careful about whom it allowed into the country.

US officials caution against delay in launching air and missile attacks

By **Peter Riddell**, US Editor, in Washington

US AIR and missile attacks on Iraq are likely to start within days of the expiry of the United Nations deadline for withdrawal from Kuwait at 5am GMT on Wednesday.

Failing any last-minute start to withdrawal by Iraq of its forces from Kuwait, both Mr James Baker, US secretary of state, and Mr Dick Cheney, defence secretary, have warned that military action will be "sooner rather than later".

While ground forces are still arriving in Saudi Arabia, the US-led coalition is ready to begin air attacks. US officials are arguing against waiting too long, both to forestall delaying tactics by the Iraqi leadership which might divide the international coalition and to avoid any pre-emptive attack by Iraq which might drag Israel into the conflict.

The tone of US official comment yesterday was sombre and pessimistic about the chances of any 11th-hour diplomatic breakthrough.

Democrat congressional leaders, who have urged caution and persistence with sanctions, yesterday promised complete support for President George Bush and US forces in the field.

The administration is confident all countries with ground forces in Saudi Arabia – with the likely exception of Syria – will send them into action if necessary.

Other American allies, particularly Japan and Germany, are facing growing criticism in the US for failing to make a "fair" contribution to international efforts in the crisis.

Senior members of congressional foreign policy committees have warned that these tensions could have an enduring impact on US relations with its allies as long-term security arrangements are reviewed.

THE US Central Intelligence Agency has been criticised by leading Democrat senators for allowing political considerations to enter into its analysis of the impact of sanctions on Iraq, writes Peter Riddell.

The controversy arises over a letter sent last Thursday by Mr William Webster, CIA director, which concluded that "even if sanctions continue to be enforced for an additional six to 12 months, economic hardship alone is unlikely to compel Saddam Hussein to retreat from Kuwait or to cause regime-threatening popular discontent in Iraq."

Senator George Mitchell, Democrat majority leader, argues that the subjective conclusions which were offered by Mr Webster "were directly contrary to the facts presented".

They could also have an effect on apparently unrelated issues, such as foreign investment and trade.

In three days of congressional debate, speakers argued that it would mainly be Americans dying in any war. Senator Robert Byrd, former Democrat majority leader, voiced a widespread view when he said it was "a shame and disgrace that Germany and Japan, two countries that will benefit far more than will the US, will stand by and cynically watch American men and women shed their blood in the sands of the Arabian desert and refuse to help to finance the costs of this effort".

Senator David Boren, chairman of the Senate intelligence committee, raised the question that, if there was a long and costly ground war, "have we served our interests, or have we served the interests of the Japanese and Germans who have been sitting on the sidelines, not contributing to this effort as they should?"

Mr Leon Panetta, Democrat chairman of the House budget committee, argues that US allies should underwrite "at least 50 per cent" of the cost of the military operation. "Everyone hoped we could begin a new era in which other nations would assume responsibility for peace in the world. This is not the kind of new world order the president envisaged."

Mr Les Aspin, chairman of the House armed services committee, warned: "If you have a shooting war, and they have still done very little, there will be a tremendous political backlash. There's going to be some reckoning on this." The administration, however, emphasises the extent of financial contributions – which the US will seek to increase – from Japan, Germany and other European allies, and the latest assurance by allies with ground troops and aircraft in the region that they will fight.

Wide differences of opinion exist across the Atlantic and the Pacific over the priority and handling of the Gulf crisis. There is also an ambiguity in the US position.

Washington wants both to lead the coalition and have a bigger financial and military contribution from allies, yet is reluctant to share decision-making. President Bush and his advisers have consulted assiduously with members of the international coalition, but are reluctant to grant more cautious allies a greater say in any military operation.

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Anti-war lobby struggles to gather steam

By Jimmy Burns and Neil Buckley in London and Nancy Dunne in Washington

A DELEGATION from Britain's Committee to Stop War in the Gulf, headed by Ms Marjorie Thompson, chairwoman of CND, will present a letter today to Mr John Major, the Prime Minister, calling for further negotiations to try to end the Gulf crisis.

This will be followed by a candlelit demonstration for peace in Trafalgar Square in the evening, and the committee says it has other "contingency plans" should hostilities break out within the next few days.

In the US, vigils for peace were continuing yesterday outside the Capitol and further nationwide anti-war marches are planned for January 19 and January 26.

Over the last week, peace demonstrations against war in the Gulf have been attracting large crowds across the western world. In Britain, the protests are still dominated by marginal groups without sufficient political clout to prevent the build-up to war.

As Mr Tariq Ali, the veteran British anti-Vietnam campaigner, noted yesterday: "The difference with 1968 is that a large number of people then identified with the enemy. Today there is a great deal of genuine pacifism but there is no identification in the West with Saddam."

But in the US and continental Europe, opposition to the war is proving more problematic: more complex than it was during the Vietnam War, but with the potential to gather steam if and when the body-bags begin to come home.

In the US, today's demonstrators – young, old and middle-aged, black and white – seem representative of the general population. Their commitment is no less emotional than that of their predecessors; but it is less inflammatory.

Disillusioned by government over the past two decades, the current activists do not feel obliged – as past generations of Americans have – to support a US president in times of national danger. There is no central threat of world communism to drive their patriotism. In fact, many believe it is President Bush's policies which helped create the Gulf confrontation.

Tony Benn, MP, with Marjorie Thompson, chair of the Committee to Stop War in the Gulf, prepare for London protest

In Britain the Committee to Stop War in the Gulf has been co-ordinating popular opposition to a war since it was formed at the end of August by Ms Thompson and Mr Bruce Kent, another leading CND campaigner.

However, the movement has yet to bring out as many crowds as opposition to the poll tax last year. It also has yet to succeed in altering the positions of the main political parties or to have its support reflected in opinion polls which continue to show majority support for military intervention.

In Spain, anti-war protests brought upwards of 100,000 Spaniards onto the streets in half-a-dozen cities over the weekend to take part in peace demonstrations orchestrated by the communist-led Izquierda Unida (United Left) coalition and by trade unions. The organisers, the speakers at the meetings and the demonstrators, however, appeared to be the rump of the far larger movement that came out onto the streets five years ago to oppose Spain's entry into Nato.

Over the weekend, Germany saw its biggest peace demonstrations since 1983 and most ordinary Germans are deeply worried about the prospect of war. About 250,000 people are estimated to have taken part in the weekend demos. Most of the marches and meetings were organised by the organisational framework left behind from the peace movement of the late 1970s and early 1980s, but the Social Democratic Party, the Greens and the trade union movement offered support in most areas.

The Italian Communist Party (PCI), Italy's second largest party, yesterday put itself at the head of the nascent anti-war movement with a declaration by its leader, Mr Achille Occhetto, that the party would oppose any move that would involve Italy in hostilities.

The PCI split over its abstention from last September's vote on military commitment to the embargo, and its decision to contest Italian participation in a Gulf war may threaten the government's majority.

In Paris, a weekend procession to the Elysée Palace was led by Mr George Marchais, head of the Communist party and Mr Henri Krasucki, leader of the CGT communist-led trade union.

Also present was Mr Max Gallo, a Socialist Euro-MP close to Mr Jean-Pierre Chevènement, the defence minister, who has serious misgivings about going to war.

A delegation was received by President François Mitterrand's diplomatic affairs adviser, Mr Loïc Hannekine.

Oil imports cost Africa $2.7bn more

By Michael Holman, Africa Editor

THE ADDITIONAL cost of oil imports for Africa as a result of the Gulf crisis is estimated at $2.7bn (£1.4bn) in 1990, while the continent's seven oil exporters benefited by at least $10.5bn, the United Nations Economic Commission for Africa said yesterday.

In its review of Africa's economy in 1990, the Addis Ababa-based commission said there was a 3 per cent increase during the year in Africa's overall gross domestic product.

But Mr Adebayo Adedeji, the commission's executive secretary, said that high population growth meant that in per capita terms the continent's GDP declined by 0.2 per cent: "This means in effect that the average African continues, for the twelfth successive year, to get poorer."

Around 20 per cent of the total imports of non-oil producing countries were taken up by oil before the crisis, says the report.

Nigeria is the main beneficiary of the increase from an average of $17 per barrel in the first half of the year to an average of around $35 by October, and on this basis enjoyed a $5.2bn "windfall". The calculation excludes earnings from increased production.

NEWS IN BRIEF

Airlines cancel their Middle East flights

BRITISH AIRWAYS was among airlines yesterday which cancelled some flights to the Middle East because of tensions in the Gulf, writes Paul Betts, Aerospace Correspondent.

BA said yesterday it had suspended its flights to Tel Aviv and to Dhahran in eastern Saudi Arabia. Trans World Airways also said yesterday it was suspending flights to the Middle East. Air France has suspended most of its passenger flights to the region.

Two die in Tornado crash

A British Tornado ground-attack aircraft on a training mission crashed in Saudi Arabia on Sunday, killing the two-man crew, the Ministry of Defence said yesterday, writes David White, Defence Correspondent.

The accident brought to seven the number of British servicemen to have died in the Gulf since forces were sent there in August. It was the third RAF aircraft to be lost. The crew were named as Flight Lieutenants Kieran Duffy and Norman Dent.

Islamabad demonstration

At least 12 policemen and 10 students were injured when demonstrators clashed with riot police in Islamabad yesterday, as they tried to reach the US Information Centre to protest at the troop presence in Saudi Arabia, writes Farhan Bokhari in Islamabad. Some 74 students were later arrested.

UK Greens in Baghdad

Two members of the British Green Party hope to meet President Saddam Hussein in Baghdad today in a last-minute attempt to stop a Gulf war and to warn of the environmental consequences of a conflict, writes John Hunt, Environment Correspondent.

Mr John Allier and Ms Suzan Dunstan, the party's Middle East analyst, yesterday met other Iraqi ministers.

Iraqi citizens living in the west face security clampdown

By Jimmy Burns and Andrew Jack

THE SECURITY net around Iraqi residents in Western Europe and the US is tightening as governments react to the threat of terrorist action.

However, within the alliance of countries currently opposed to President Saddam Hussein, there appears to be no united policy on how draconian security measures should be.

As the crisis deepens, more governments are likely to have to make the unpalatable choice between greater security and civil liberties.

EC ministers agreed in September to tighten security involving more than 18,000 Iraqis living in Europe, and this was quickly followed up by the first wave of expulsions of Iraqi diplomats from several European capitals, mainly military attachés, in a move led by France and Britain.

More recently, Britain together with other European countries including France, Spain, Germany, Sweden and Italy have ordered intelligence and police services to increase surveillance of suspect Arab terrorists and are tightening up on new entrants.

Britain has gone further than its EC partners in the number of diplomats it has expelled and in deporting other Iraqis, mainly students, suspected of being a potential terrorist threat.

In the US, where there are more than 68,000 non-immigrant and legal, permanent Iraqi residents, the FBI and other government offices have taken a series of controversial steps, including fingerprinting at ports of entry and interviewing suspects.

Washington's latest wave of diplomatic expulsions was announced this weekend. State Department officials say the "primary objective is to reduce Iraq's capacity to orchestrate terrorism in the event of hostilities".

But the decision of the FBI to ask Arab-American businessmen to volunteer information on their compatriots has caused controversy as a potential infringement of civil liberties.

In Britain, where officials are wary of encountering similar protests, the Home Office was yesterday trying to play down the possibility of internment for Iraqis living in the UK.

But they said "contingency" plans exist for tightening internal security in the event of a war in the Gulf.

There continue to be unofficial reports, however, that the Home Office has plans to arrest a limited number of Iraqis in the event of war, and detain them in camps guarded by military police, including one at an army base at Rollestone on Salisbury Plain.

Apart from internment without trial in Northern Ireland, foreign nationals in Britain were last arrested during the Second World War. Any detentions would take place under emergency powers following a declaration of war.

An alternative strategy for the government would be further deportations. But a Foreign Office official said she did not expect further deportations of embassy staff, adding: "The secretary of state has said that he wishes to keep channels of communication to the Iraqis open." A similar view is being taken in Washington.

The near-5,000 Iraqis living in the UK include a substantial number of dissidents. Nearly 600 have formally been granted asylum since 1979.

The UK Council for Overseas Student Affairs estimates that around 1,000 Iraqi students were studying in Britain at the start of the academic year. But since their maintenance and tuition payments were frozen by the embassy after sanctions were introduced, many have left, says Ms Maeve Sherlock, deputy director of the council.

The students are widely dispersed around the UK, with few in London, and the largest number – around 60 – studying at Strathclyde University, with significant groups in cities such as Leeds, Swansea and Loughborough.

The two student political organisations are the National Union of Iraqi Students and Youth, which is Ba'athist and pro-Saddam, and the unofficial Iraqi Student Society. Few university student unions will fund the National Union, said Ms Sherlock, because it has the reputation of spying on Iraqi dissidents.

Numerous Iraqi students appear to be non-political, or opposed to the Saddam regime. "I have never been involved in any political action," said one Iraqi science postgraduate living in South Wales. "I am not very interested in politics. I'm just trying to get my PhD done. But I am very concerned about the safety of my family."

Additional reporting by Tom Burns in Madrid, John Wyles in Rome, David Goodhart in Bonn, Robert Taylor in Stockholm and Ian Davidson in Paris.

Norway likely to supply Saudi field hospitals

By Anthony McDermott

NORWAY is expected to agree to a British request to supply field hospitals and services in Saudi Arabia to handle Iraqi prisoners of war.

The government in Oslo has agreed in principle, and talks yesterday between Mr Johan Jorgen Holst, the Norwegian Defence Minister, and Mr Tom King, his British counterpart, were aimed at finalising the details.

Norway, a member of Nato, has so far contributed to the allied Gulf effort one coastal patrol vessel, working out of Dubai and deployed to police the embargo against Iraq. In addition, it had provided Turkey with Sidewinder air-to-air missiles, three field hospitals, and aircrews to participate in the Nato early warning systems.

Mr Holst said that there had been overall agreement in Norway to the principle of providing services which would back up camps for Iraqi prisoners. The contribution involved "a few hundred people and some 100 beds in field hospitals".

Norway would be available for a contribution to a UN force to supervise a withdrawal from Kuwait, and medical assistance for Iraqi prisoners of war should not exclude it from this role.

MIDDLE EAST IN CRISIS

Western nations plan how to maintain oil supplies

By Deborah Hargreaves

WESTERN industrialised countries are putting final touches to plans for dealing with a disruption to oil supplies as the world faces the prospect of a war in the Gulf.

The International Energy Agency has committed its 21 members to making 2.5m barrels of oil a day available to world markets once it perceives a shortfall. Almost half this, 1.1m b/d, is likely to come from the US, where 586m barrels are stored in the strategic petroleum reserve.

Measures to cut demand in most countries are expected to be little more than publicity exercises, to start with. If hostilities continue for longer than expected or if there is a severe disruption to oil supply, steps to cut consumption will be crucial. But with world stocks at their highest for nine years, stored oil would last a year and a half at the planned rate of 2.5m b/d, according to the UK government.

The British government has indicated that petrol rationing would only be implemented if supply dropped below 20 per cent of last year's demand, and looked likely to stay there for six months.

Demand has been dropping in the UK by 1 to 2 per cent a month since November, compared with the same months a year earlier, and is currently 70m tonnes a year.

Aside from the US, the largest reserves of government-controlled oil in the IEA are held by Japan and Germany: 206m barrels and 194m barrels respectively.

The Japanese government is expected to lower the minimum level it requires companies to hold so that commercial stocks will be available to the market in the event of war. In this way Japan will make 300,000 b/d available to the market. Tokyo has already said it will turn the heat down in government buildings.

Germany, which is due to announce its emergency plans today, will also rely heavily on stock drawdown.

The IEA's plan covers 23 countries and 17 of them will be relying on some form of stock drawdown. France is the only country that will not draw on any stock, but will rely wholly on demand restraint measures such as increasing taxes on petrol. Spain, Sweden and Turkey will also rely heavily on voluntary restraint measures.

The UK will contribute 120,000 b/d to the IEA's 2.5m b/d by releasing company stocks over which the government has a claim.

If supply were to fall by around 2 per cent of demand the government would consider cutting the speed limit from 70 to 50 miles per hour and encourage such practices as car tuning and car sharing.

EC regulations require Britain to carry 76.5 days of oil and product stocks held by companies as part of their normal commercial inventories. Total UK company stocks are currently slightly higher than required, at 17.3m tonnes, of which 40 per cent is held as crude and 60 per cent as petroleum products.

The government believes it could get these stocks to market in less than the 15 days set by the IEA for stock release, since they are held in commercial storage.

Other countries in the IEA which hold government stocks are Italy, Sweden, the Netherlands, Denmark and Austria, which between them hold 42m barrels.

Bahrain's biggest bank moves operation

By Mark Nicholson in Bahrain

ARAB Banking Corporation, Bahrain's largest bank, said yesterday it was shifting its operational centre from Bahrain to London until the Gulf crisis was over.

ABC has written to all its business partners advising them to conduct transactions through its London branch, which has full access to all the bank's records under a crisis management system introduced during the 1980-88 Gulf war.

Mr Abdulla Saudi, the bank's chief executive, stressed yesterday that the move was temporary and did not indicate plans to abandon its base in Bahrain, the Gulf's beleaguered banking centre.

He said that the shift would require the addition of just four staff in the bank's London office.

Bahrain's offshore banks have been severely hit by the Gulf crisis. Almost all the island's banks had credit lines cut when the crisis began and bankers say virtually no fresh money has entered the island since.

Gulf International Bank, Bahrain's second largest, sacked more than 50 senior staff earlier this month and drastically cut back its international operations in the island's biggest retrenchment move to date.

Mr Saudi said that ABC's Bahrain operations had also suffered and that the bank would be announcing cuts in its Gulf-based investment banking operations over the next two months.

However, he said that the bank's international subsidiaries, which include Banco Atlantico, the Spanish retail bank, and International Bank of Asia in Hong Kong, were performing strongly.

Furthermore, Mr Saudi said the bank's expansion plans would continue despite the crisis and that the creation of a London-registered subsidiary, to be called ABC International, should be completed within two months.

The Bank of England has given preliminary approval to the new bank, for which the board of directors is being finalised.

City of London battle stations

By Stephen Fidler, Euromarkets Correspondent

THE City of London looks set for an early rush hour tomorrow as some trading rooms are expected to be staffed at 5am for the expiry of the UN deadline for Iraq's withdrawal.

Midland Bank, for example, is to keep two dealers in the office overnight in case war erupts. Most of the rest of its Treasury team are expected to be at their desks at 5am.

Some dealers at the Japanese securities house, Daiwa Europe, will also arrive by 5am. Officials said traders of US and Japanese government bonds would go in early.

Others, unconvinced that hostilities will break out immediately, say they will only react when something happens. They have made plans to ensure staff are informed as soon as something happens.

G7 resists US moves to forgive Egypt's debt

By Stephen Fidler, Euromarkets Correspondent

PROPOSALS by the US to forgive some of Egypt's debt to foreign governments are meeting opposition from other members of the Group of Seven industrialised countries.

The US has already written off about $7bn (£3.6bn) of military debt owed by Egypt in response to Egyptian support for the US-led alliance.

Its proposal for forgiveness of Egyptian trade debts to governments – to be discussed by the Paris Club of creditor governments this week – was seen as a further gesture of support for President Hosni Mubarak's administration.

The decisions of the Paris Club on trade debts are made by consensus. Officials said most of the G7 opposed forgiveness of Egypt's trade debts although they would not oppose a more usual rescheduling of maturities.

There is doubt in some governments about Egypt's immediate need for debt forgiveness in 1991-92, with strong financial support promised from several sources, including Saudi Arabia.

The Paris Club's rescheduling operations normally only follow agreement with the International Monetary Fund on an economic programme. The IMF is holding discussions but Egypt's ability to stick with such a programme is questioned.

The Club is also scheduled to discuss Poland's debt to governments. Around three-quarters of its $45bn in foreign debt is owed to governments, but as yet no consensus has emerged on how to deal with these debts once an agreed moratorium on Polish principal and interest payments expires at the end of March.

Desperate to leave Israel: a woman holds her head in her hands as she tries to buy an air ticket at Ben Gurion airport yesterday

London insurers carry little war risk

By Richard Lapper

INSURERS in London are preparing to meet increased claims from the Gulf if hostilities begin but the world's biggest insurance and re-insurance market will not be undermined by the impact.

Although billions of dollars of assets are at risk from military action, a relatively small proportion of this wealth is insured. Insurance of some of the biggest assets in the region, such as the Saudi and Kuwaiti oil installations, is invalidated in the event of war.

Underwriters at Lloyd's of London agreed to exclude "war on land" as a risk from standard policies as long ago as 1936. Some war risks on land cover is available outside London but in relatively small amounts.

Marine and aviation underwriters in London and in some other markets (in France and Scandinavia, for example) do insure significant exposures against war risk but have already dramatically increased insurance rates and retain considerable flexibility to introduce further rises.

In London, upwards of eight underwriting syndicates at Lloyd's are leaders in the marine war risk market.

Premiums for both ships and aircraft and for their cargoes have been increased sharply in recent weeks. Marine underwriters are now charging up to 2 per cent of the value of a ship and its cargo to insure a one-week voyage into the war zone. This compares with annual rates of less than 0.1 per cent before the crisis.

Aviation underwriters introduced even more drastic rises in early January, charging airlines 0.25 per cent of an aircraft's value for a single flight to exposed destinations such as Tel Aviv and Riyadh. Prices could go even higher.

During the Gulf war between Iran and Iraq, shipowners faced prices of up to 5 per cent while during the Second World War owners of cargo ships sailing in Atlantic convoys paid premiums of 10 per cent.

Aviation insurers have already met one claim under a war risks policy of $300m, compensating Kuwait Airways for the loss of 15 aircraft confiscated by Iraqi forces in August.

Insured ships and their cargoes sailing in Gulf waters could be worth $600m and $1bn on any given day, according to one specialist war risks broker.

One new supertanker carrying 220,000 tonnes of oil could be valued at as much as $180m, although in practice most shippers transporting oil from Saudi ports will tend to deploy older ships whose value would be nearer to $20m.

Tankers carrying liquid natural gas are more expensive at around $150m but go only as far as Das Island, at the southern end of the Gulf, at a reasonably safe distance from potential Iraqi attack. The cost to underwriters of any loss could be increased by the expense of wreck-removal, pollution clean-up and payments to seafarers killed.

But although catastrophes are possible, these are seen very much as variants of the storm or explosion losses which occur in the normal course of events.

Mr Stephen Merrett, a leading war risks underwriter at Lloyd's, warns against a Doomsday approach. "If you are not careful you can produce a more and more extravagant idea of what might happen which becomes less and less real."

Underwriters believe that the scale of losses in the Iran-Iraq war, when the London market paid out $1bn after eight years of war, is a good guide to the level of future claims. One prominent broker said that he viewed the overall chance of any major loss as slim. "The chance of shipping losses being anything like 10 vessels overall is unlikely," he said.

Two other areas could present insurers with heavy claims. Lloyd's syndicates, along with the US insurer American International Group, have participated in a scheme providing life insurance to British servicemen in the Gulf. Several thousand policies, guaranteeing up to £100,000 in cover, have been sold. Claims will obviously follow from military casualties.

Iraq's threat to unleash a world-wide terrorist offensive is also worrying insurers. One broker said that with the market terms "target risks" outside the Gulf could be a bigger source of loss than military destruction inside the region.

INTERNATIONAL NEWS

Tokyo may help pay for US bases in Philippines

By Greg Hutchinson in Manila

JAPAN is considering contributing to the upkeep of US military facilities in the Philippines, Mr Raul Manglapus, Philippines foreign secretary, said yesterday.

"The burden-sharing aspect is something we consider important," he said at a news conference, adding: "We feel that the initiative should come from the American side on this matter although we have informally taken this up with some of our friends in the [East Asia] area, including Singapore and Japan."

Asked what Japan's response was, Mr Manglapus replied, "positive". But he emphasised Manila was not asking Tokyo to become involved militarily, only to provide economic support.

Feelers had also gone out to the Philippines' neighbours in the Association of South-east Asian Nations (Asean). Bonds at concessional rates were being looked at for funding the facilities, which include the gigantic Subic Naval Station and Clark Air Base. "It would not be aid," Mr Manglapus said.

An amount had yet to be decided, pending agreement on compensation with the US.

If peace reigns in the Gulf, the Americans would be seeking a reduced but still substantial military presence in their former colony beyond the expiration this September of a lease over the bases.

A fourth round of US-Philippine talks aimed at crafting a security-related treaty ended last Saturday. A final round is scheduled for next month.

Roh demands cut in S Korean inflation

By John Ridding in Seoul

MR Roh Tae Woo, South Korea's president, yesterday ordered his economic ministers to reduce the country's rate of inflation, following last year's 9.4 per cent increase in consumer prices, the highest in almost a decade.

In a meeting with top economic officials, called to set out this year's economic strategy, he also stressed the need for raising industrial competitiveness, improving labour relations, and resolving trade disputes.

"People are greatly concerned at the recent hikes in prices that directly affect their daily lives," Mr Roh said, according to Yonhap, the official news agency. "Ministers must concentrate their efforts on appeasing inflation psychology as soon as possible."

The government has set an inflation target of 8 per cent this year. Analysts doubt that this can be attained, pointing to the effect of the increase in oil prices and the inflationary impact of local elections to be held in the first half of the year. They also argue that the real increase in the cost of living suffered by most Koreans is understated by the official consumer price index.

During the current year, emphasis will also be placed on stimulating the manufacturing sector. Mr Chung Yong Euy, the minister of finance, said he would reduce loans to non-manufacturing companies and would seek to increase the level of facility investment by 25 per cent to won 16 trillion (£11.5bn).

Mr Roh also emphasised the need to avoid trade friction with Korea's economic partners. Trade relations with the US, Korea's largest partner, have deteriorated since the middle of last year because of Korea's stance on agricultural and service market liberalisation and the launch of an austerity campaign which has restricted high-quality imports.

A team from the US, headed by Mr Richard McCormack, US under-secretary of state for economic affairs, is in Seoul for two days of talks aimed at resolving outstanding trade issues.

Police fought with students in Dhaka, Bangladesh, again yesterday, after a student was shot dead by police who stormed a college campus. The violence began on Sunday after police beat a student who got into an argument with guards at the Indian High Commission while trying to get a visa to visit India.

Japanese car imports at record high for fifth year in a row

By Emiko Terazono in Tokyo

SALES OF imported cars in Japan last year rose by 22.9 per cent to a fifth consecutive record.

Figures published by the Japan Automobile Importers' Association (JAIA) showed that the total number, 223,923 units, fell short of previous projections of 240,000 units.

Sales for December indicated a sluggish 0.1 per cent year-on-year growth of 22,873 units, the lowest since December 1983. The dull growth reflected an 11.4 per cent decline in sales of smaller cars.

West German manufacturers remained dominant, with 62 per cent of total imported car sales. Mercedes Benz lead the way, with sales increasing by 23.3 per cent to 38,844, capturing 17.5 per cent of the market. Volkswagen came second with 36,770 units, BMW third with 36,527, and Audi fourth with 16,691.

British cars contributed 8.8 per cent of total sales at 19,653 units. Sales of the Rover Group surged 35.4 per cent to 14,431 units, putting it in fifth place, helped by increased sales of the Rover Mini.

JAIA sees the predicted slowdown in the Japanese economy affecting imported car sales this year and is expecting growth to slow this year to 13.9 per cent at 255,000 units.

But Mr Hajime Saburi at Mercedes Benz Japan said the slowdown was only in the smaller cars: sales of the larger luxury models were still brisk.

● South Korea's exports of motor vehicles to the US last year declined 15.9 per cent from 1989, to 196,200 vehicles, the Korea Automobile Manufacturers' Association reported yesterday, AP-DJ reports from Seoul.

It was the second consecutive yearly setback in Korean motor exports to the US, Korea's biggest market. The 1990 figure accounted for 56.5 per cent of Korea's overall exports, which stood at 347,020 vehicles, down 2.5 per cent from 1989.

According to the association Korea exported 54,888 vehicles to Canada, up 25.6 per cent from a year ago and 29,605 vehicles to Europe, up 23 per cent.

Officials said most of the exports were passenger cars, but the figures also included trucks and buses. They said Korean vehicle exports to the US slowed because of a weak market there and because of Korea's loss of price competitiveness, while Korean carmakers made greater sales efforts in other countries to diversify their markets.

The Korean motor industry aims to export about 400,000 vehicles this year, and sell 1.15m vehicles on the domestic market.

Black marks for failure of S African education

Philip Gawith on the ritual of matriculation results

EVERY year the festive season in South Africa provides the backdrop to a grim and dispiriting ritual, the publication of black matriculation, or school-leaving, results.

The release of white matric results is always accompanied by great celebration, with media attention focused on the healthy list of star pupils, their average age around 18.

But black results provide a macabre comparison, full of gloom and failure. Each year, angry black politicians warn of a catastrophe and the media is awash with a litany of excuses.

1990 was no different. Indeed, the results published last week were the worst ever. Of the 233,411 black students who sat the exams, over 150,000 failed. Only 36.4 per cent, or 81,746, passed; only 17,397 satisfied the nominal requirements for university entrance. This compares with pass-rates of over 95 per cent in both white and Indian communities.

Two caveats are required. The Department of Education and Training (DET) is upgrading the standard of its matric. So, while success rates are low, those who pass are obtaining something of greater value than the devalued certificate of the past.

Second, pupils can decide whether to write their exams at higher or standard grade. Inexplicably, more than 90 per cent of black candidates, against 50 per cent of whites, write at the higher grade. Greater balance here would improve the black pass rate.

For the individuals concerned, the results are a tragedy. But on a national scale the poor quality of black education, as witnessed by the matric results, hints at a vast class of people with no stake in civil society.

Ironically, while the country fails so conspicuously to educate its people it is also faced with a critical skills shortage. The National Manpower Commission estimates that the country will have a shortage of at least 228,000 professional and technical workers by the year 2000.

If the symptoms of the malaise are stark, then the causes are legion: a corrupt and incompetent bureaucracy, inadequate facilities, a legacy of financial neglect, poor morale, indiscipline, and political abuse. The result is a deep-seated collapse in the educational ethic among the black community. The habit of learning and any perception of its benefits are frequently absent.

Although the problems are daunting and certainly not soluble in the short term, there are signs of hope. Most important, those signs are emerging from the government.

Last year it discarded its policy of refusing to consult legitimate community organisations. Now a dialogue exists with such bodies as the National Education Co-ordinating Committee (NECC), certainly no friend of the government. This change in attitude can probably be attributed to the good-faith efforts of Mr Stoffel van der Merwe, the minister of education and training, and Dr Bernhard Louw, the director-general of the department, both relatively new hands at the job.

A hint of things to come was shown last week with the historic opening of some white state schools to black pupils. The government's efforts have been timid and the numbers involved are small, but the important principle of mixed state-education has been conceded. Considerable impetus should come with the abolition of the Group Areas Act, expected next month. Once segregated areas disappear, the logic for segregated schools cannot be sustained.

The government still has much to do. A priority is a rationalisation of structures – the current situation of 14 separate departments is patently absurd. It also needs to make better use of existing physical resources. It is cruel folly that white schools should be closing and teachers laid off for want of pupils, when black schools suffer a shortage of both.

There is also heartening news from the communities where political organisations seem finally to have abandoned the policy of using children as shock troops of the struggle.

The African National Congress (ANC) has said: "The subversion of the education of our people only the serves the forces of apartheid." Last week it called on teachers to "ensure that teaching does take place to a far greater extent" and for students to return to school – a long way from the damaging "Liberation now, education later" slogan of the mid-1980s.

The business community is also stepping up contributions. Next month Charter Life, the black-oriented component of the insurance company Liberty Life, plans to organise a conference seeking to develop a partnership between business and black communities and aimed at "promoting education in the interests of the community and of economic advancement".

Mr Martin Sweet, for Charter, says: "Private enterprise has to come in to close the gap as an interim measure until government can follow through."

Certainly there is not a lot of scope for more government spending on education. In the 1990/91 budget, 18.6 per cent of total spending went on education, above the level for countries with a similar per capita income.

> Three more blacks have died from injuries sustained during a weekend attack on a South African township funeral wake, bringing the death toll to 38, hospital staff said yesterday, Reuter reports from Johannesburg.
>
> Police said the number of people killed when the crowd at a soccer match fled from fighting spectators on Sunday was also expected to rise from 40.
>
> A hospital spokesman said some of the 26 people wounded in a pre-dawn rifle and grenade attack on a prayer vigil at Sebokeng township south of Johannesburg on Saturday were still in a serious condition.
>
> Police have arrested 10 people in connection with the attack, in which gunmen fired automatic weapons and hurled grenades at the vigil for a member of the African National Congress (ANC), the main movement fighting white rule.
>
> Sebokeng was reported quiet yesterday after Law and Order Minister Adriaan Vlok clamped a night-time curfew on the township which has seen some of the worst violence.

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Latvians prepare to defy Soviet troops in Riga

LATVIAN civilians yesterday rallied in their thousands to guard vital buildings in the capital, Riga, against attack from Soviet troops and tanks, as the commander of Soviet forces in the Baltics declared that the republic must submit to Soviet rule, *Reuter reports from Riga.*

The Latvian government went into a crisis meeting last night, saying it expected a move by the Soviet army and the Communist party to topple it.

"I am convinced the attack will come tomorrow... this is the end of democracy," said the republic's minister of government affairs, Mr Karlis Licis.

Latvians linking arms stood outside the red-brick parliament building in a human barricade while others cut the city centre off with buses, trucks and snow-ploughs, blocking every road wide enough for a tank or armoured car.

Barricades of wood, iron poles, fences and even old barrels were piled up high in smaller side streets to hamper movements by troops.

Soviet troops were ordered into the three Baltic republics by the Defence Ministry last week to enforce the military draft, and Latvia had been given until noon yesterday to register all youths eligible for conscription.

In Stockholm, Mr Dainis Ivanis, the Latvian vice-president, said he was prepared to form a government in exile if Soviet troops continued their crackdown.

Mr Ivanis spoke after arriving in Stockholm by boat, together with Mr Bronius Kuzmickas, the Lithuanian vice-president. Both said they would stay abroad until conditions returned to normal in the Baltic republics.

The order by General Fyodor Kuzmin, the Soviet Baltic commander, caused consternation at a conciliation meeting called by Mr Anatolys Gorbunovs, the Latvian president, with the republic's political parties.

The general said Soviet law must be honoured and that tens of thousands of Soviet servicemen must be respected.

"I propose confiscating all combat arms from the population, listing all owners of hunting rifles and taking control of the arms of the [Latvian] Ministry of the Interior and customs service," said the general. "All servicemen will defend their rights. They will fight for their rights."

The Latvian president had called the talks with Gen Kuzmin in an attempt to prevent a Soviet army assault on parliament and other buildings.

But the talks, held in the presence of reporters at a Riga city government building, were boycotted by the powerful pro-independence Popular Front and the influential Social Democrat party.

Meanwhile, in an ominous echo of events last week in Lithuania, the small pro-Moscow Latvian Communist party announced its own emergency committee.

"In case the parliament refuses to dissolve itself and the government refuses to resign, the necessity was stressed from the all-Latvian committee of public salvation to take full state power until new parliamentary elections," the official Tass news agency said in a report on a special party meeting.

The committee, under Communist party boss, Mr Alfred Rubiks, also called for direct rule from Moscow and threatened a political strike to begin today.

Republic officials said that statements made yesterday by the army and the Latvian Communist party echoed threats made before the army launched its bloody assault on key buildings in neighbouring Lithuania on Sunday.

Latvian radio appealed to people to keep calm and not to spread rumours.

THE PRESIDENTS of Estonia, Latvia, Lithuania and Russia yesterday issued a statement condemning Soviet action in the Baltic states as a serious threat to their sovereignty leading to the escalation of violence and human casualties, writes Quentin Peel.

Stating their belief that "further development is possible only along a road of radical changes on the basis of peace and democracy", their eight-point statement began with a mutual recognition of sovereignty and claimed exclusive authority for legally elected bodies. "Actions of parallel structures claiming power are illegal", it added.

Use of military force for settling internal problems is condemned as "inadmissible."

They expressed readiness to help each other "where threats to sovereignty arise" and "denounce any instigation of inter-ethnic conflicts in pursuit of political aims."

Latvians, fearful of troops, gather courage by singing the national anthem in Riga

Lithuanians mourn dead as struggle goes on

By Leyla Boulton in Vilnius

LITHUANIANS shared their grief and uncertainty yesterday as the Red Army and a shadowy pro-Moscow salvation committee kept the rebellious republic guessing where they would strike next.

Ten of the 14 people killed when paratroopers stormed Lithuania's radio and television stations lay in state in the palace of sports yesterday.

"My only thought last night was that they should not take the parliament because that would mean my son would not even be allowed a decent burial," said Mrs Galina Janenskas, herself a Russian by birth.

Her son Roland, shot dead by Soviet soldiers at the television tower, was laid out in an open coffin, his face badly burned by gunfire, his waxen hands clutching a crucifix.

The 22-year-old electronics student had just served three years in the army which killed him. He had gone out to defend the TV station with his bare hands, along with his brother and a girlfriend.

"This is on Gorbachev's conscience. Roland was killed by red fascism," said the boy's father.

Tens of thousands of Lithuanians queued for hours in the snow to pay tribute to the victims of what has been dubbed "Bloody Sunday". The first dead in Lithuania's two-year struggle for independence from Moscow are to be buried tomorrow.

The body of Ms Loreta Asanaviciute, 23, was dressed in a wedding-gown, even though she was unmarried when she was crushed by a tank in front of the TV tower in the early hours of Sunday morning. It is Lithuanian custom to bury unmarried women in wedding dresses.

Mystery still surrounded the intentions of the Red Army, which announced martial law on Sunday morning. Soviet troops yesterday took over a local radio station in Vilnius, after a pledge by Soviet authorities the previous night that there would be no more military action for at least 24 hours.

Mr Juzis Jarmalavicius, ideology chief of the local Communist party, denied a military radio report that he had been named the new prime minister by a national salvation committee.

He said that an "acute political struggle" was still going on in Lithuania and added that the salvation committee's main task now was to prevent further bloodshed.

But it was the same national salvation committee which declared it had taken power after soldiers seized the television tower.

Meanwhile, the Lithuanian parliament, barricaded inside the assembly with a huge unarmed crowd to defend it outside, continued to prepare against becoming the next and final target.

EC threatens Moscow aid cut over Lithuania repression

By David Buchan in Brussels

EC FOREIGN ministers yesterday warned the Soviet leadership that technical aid worth Ecus 400m (£280m) would be suspended if it continued to use force rather than negotiation in Lithuania.

A special meeting of the 12 foreign ministers on the Lithuanian, as well as the Gulf, crises, issued a statement saying that EC states "do not underestimate the difficulty of the situation" in the Soviet Union. That was why the Community last month made concrete aid pledges of up to Ecus 1.15bn in food and technical aid, it said.

But such co-operation was based on "shared values and objectives". "The situation which prevails in Lithuania should not be prolonged in any way or extended to the other Baltic states."

Mr Jacques Delors, the European Commission president, yesterday delivered a combined protest and warning to the Soviet ambassador to the Community, saying the first casualty of any continued Soviet crackdown would be technical aid and a meeting between EC and Soviet officials to discuss it, set for January 24.

Last month the EC agreed on a programme of Ecus 400m in technical assistance (to help such problem sectors as food distribution, transport and energy) this year, as well as up to Ecus 750m in food aid (one third in the form of grant, and two thirds on credit).

The ministers agreed that the food programme, now just getting under way with an EC team in the Soviet Union this week, should continue, although Mr Delors suggested that a second casualty of any persistent repression of the Baltic republics might be food credits.

This strategy of graduated economic response bridged the gap between Denmark, whose foreign minister, Mr Uffe Ellemann-Jensen, strongly supported fellow-Balts by calling for an aid cut-off, and Germany, which was far more cautious.

Mr Jacques Poos, the Luxembourg foreign minister and current EC president, said the Vilnius violence had "evoked memories of Budapest and Prague, though the situation was not exactly the same and more complex".

His British counterpart, Mr Douglas Hurd, said there was no question of the EC going back on its previous policy. "We have always said we hope that President Gorbachev will succeed as a reformer," he stressed.

The UK foreign secretary hoped that yesterday's lull in Vilnius would "be turned into détente and then negotiation, so that we won't again see people being killed in a European city in an attempt to suppress opinion by tanks".

In a radio interview, Mr Hurd said the Soviet Union was in danger of retreating into its "Stalinist shell".

In London, Mrs Lynda Chalker, British minister for overseas development, said any further use of force by Soviet troops against Lithuania could jeopardise western aid to Moscow "very greatly".

In other reactions yesterday:

- Nato said a continued crackdown in the Baltics would damage East-West relations;
- Five Nordic prime ministers sent a protest letter to Mr Gorbachev calling on him and the military to refrain from further acts of violence;
- Japan said it might reconsider its aid policy towards the Soviet Union if the military crackdown on Lithuania was ordered by Mr Gorbachev;
- Ms Yelena Bonner, widow of the late Mr Andrei Sakharov, asked the Nobel Prize committee to delete his name from the list of peace laureates so it did not appear near that of Mr Gorbachev, last year's winner.

YELTSIN APPEALS TO RUSSIAN TROOPS

Excerpts from an appeal by Mr Boris Yeltsin, president of the Russian Supreme Soviet.

'Soldiers, sergeants, officers, our citizens enlisted in the army on Russian territory, and now serving in the Baltic republics!

Today, when our country is living through an economic and political crisis, and the healthy forces of society acting within legal, constitutional limits, are seeking ways out of the grave situation, you may be given orders to move against legitimately created state bodies, against peaceful civilian population defending its democratic achievements.

You may be told that your help is needed to bring about order in society. But can the breach of the laws and constitution serve order? It is exactly to this breach you are being pushed, by those who seek to settle political disputes, relying on the force of military units.

Before attacking civilian sites on the Baltic land remember your home, the present and future of your republic and your people. Abuse of law, abuse of the Baltic nations, will create a new serious crisis in Russia itself, and in the conditions of the Russians living in other republics.

Carrying out orders to attack civilian objects, and using arms against civilians, you turn into a tool of dark, reactionary forces.

We believe in you, officers and soldiers of Russia. We believe that for you, as for earlier generations of Russian warriors, the highest moral values are unfailingly dear, such as honour, prowess, courage and loyalty to the Motherland.

Let us remember the lessons of history, which says that a wrong step taken today brings harm not only to those who make it, but to the future generations as well.'

Pavlov is new Soviet premier

By Quentin Peel in Moscow

MR VALENTIN PAVLOV, 53-year-old Soviet finance minister, was yesterday confirmed as prime minister by the Soviet parliament. His appointment means that a technocrat, rather than a party official, now heads the Soviet government which will be very much under the direct control of President Mikhail Gorbachev.

An economist and former tax inspector, Mr Pavlov is a safe but unimaginative choice for premier, a job which will clearly be overwhelmingly concerned with the reform of the collapsing economy.

In that role he has shown himself to be more of a bureaucrat than a reformer; but an enlightened bureaucrat who has accepted the ultimate goal of switching to a market economy, cautiously, not radically.

He told members of the Supreme Soviet that the current state of the Soviet economy was "unsatisfactory" and he saw his job as the first head of the new cabinet of ministers – a streamlined version of the former council of ministers – capable of "improving the difficult situation in the country and smoothing the transition to market relations".

Mr Pavlov was one of the first members of the former government to propose opening the Soviet Union to direct foreign investment, instead of simply joint ventures. Yesterday he was more cautious, saying: "We invite all who want to take part in developing his vast state to join us in work and co-operation... assuming that these people will come to us with pure intentions."

Moldavian fears grow as troops manoeuvre

By Ariane Genillard, Kishinev, Moldavia

FEARS GREW in Moldavia yesterday that it would suffer the same fate as Lithuania as Red Army troop manoeuvres were observed in the republic and across its border with the Ukraine.

Denouncing the Soviet intervention in Lithuania, Moldavia's President, Mr Mircea Snegur, warned that "force should not be used for drafting young people in the Soviet army" and that "any presidential action by Gorbachev in Lithuania would have negative consequences in various parts of the Soviet Union, including our republic". An estimated 42 per cent of Moldavian conscripts have deserted from the Soviet army.

Colonel Nicolae Chirtoaca, head of the republic's defence department, confirmed that a battalion of soldiers stationed in the south of the republic had been recently moved to the capital. He said this battalion was made up of soldiers from Russia.

In a radio broadcast in Tiraspol, the capital of the Moldavian region of Transdniestria which also borders Ukraine, the commander of the military district of Odessa said that "the Red Army will do all it can to prevent Moldavia from breaking away from the union."

Resistance to a potential Red Army intervention has started. The Moldavian Popular Front, the nationalist movement which spearheaded the republic's independence efforts, appealed on Sunday "to the whole Moldavian population to stand against any kind of imperialist union treaty and defend any vital places in the republic." The front is believed to have an unofficial militia numbering up to 30,000 volunteers.

The front also hides some of the deserters who have until January 16 to join the army. A three-day grace period granted by the government to deserters, which was to end Sunday night, was extended to Wednesday by General-Major Victor Nazarov, liaison officer in Kishinev for the Red Army in Moscow.

Crackdown may bring wave of anti-Soviet sentiment

By Our Foreign Staff

THE sight and sound of Soviet tanks firing into crowds of unarmed demonstrators in Vilnius over the weekend has re-opened thinly covered scars throughout eastern and central europe.

It risks provoking a wave of anti-Soviet sentiment which could greatly complicate the task of building a new relationship with the countries so recently released from Soviet military, political and economic domination.

The refusal of the Soviet leadership to concede the restoration of sovereignty to the three Baltic states whose fate was to fall under Soviet control five years earlier than the rest of eastern Europe has led to angry public reactions and carefully phrased offical condemnation.

Czechoslovaks, scarred by the memory of their own traumatic invasion by Soviet forces in 1968, are pouring money into a special bank account set up by the Prague government for aid to the Baltics. President Vaclav Havel, who intends to send an open letter to the Soviet president, addressed the nation on television and described the Soviet leader as a man who still had communist patterns of thought and was trying "to retain the unretainable".

In Budapest, where hopes of independence from the post-Stalinist thaw were crushed by Soviet tanks in 1956, the government led by Mr Jozsef Antall condemned the Vilnius killings but refrained from criticising Mr Gorbachev personally. Hungary, like Czechoslovakia, is anxious to secure the withdrawal of Soviet troops by the promised deadline of June this year.

In Poland, whose communist-controlled national army declared martial law in 1981 to forestall a feared Soviet military intervention, protesting crowds gathered outside the Soviet embassy. But newly-elected President Lech Walesa cautiously declined to comment officially.

Administration worries about parallels with the crushing of Hungary's uprising during the Suez crisis in 1956

Washington tries to read signals through the Vilnius smoke

By Lionel Barber in Washington

THE SOVIET crackdown in Lithuania could not have come at a worse time for President George Bush, and many officials in Washington wondered aloud yesterday whether Moscow meant it to be so.

General Brent Scowcroft, Mr Bush's national security adviser, was the first to draw parallels with 1956, when the west's preoccupation with the Suez crisis encouraged the Kremlin to crush the Hungarian uprising. Certainly, there are troublesome comparisons.

President Mikhail Gorbachev telephoned Mr Bush just 24 hours before Soviet tanks steamrollered unarmed demonstrators in Vilnius. By his own admission, the US president spent most of his time talking about the Gulf and thanking Mr Gorbachev for his support.

Mr Bush now finds himself beset by crises on two fronts, and every sign suggests that he intends to deal first with Iraq. The first task is to determine to what extent the crackdown was ordered by Mr Gorbachev; the second is to see whether the hard line is likely to be repeated in other rebellious republics.

The White House said yesterday it was reviewing economic aid to Moscow, a reference to possible suspension of $1bn in credit guarantees approved last month for Soviet purchases of US commodities. The Moscow summit set for February 11-13 was also in doubt. However, this had already become uncertain because of the threat of war in the Gulf.

A postponement or cancellation of the summit would further delay the planned Start treaty to cut strategic nuclear weapons by 30 per cent. Equally important, the Baltic crackdown (coupled with evidence of Soviet attempts to circumvent the Conventional Forces in Europe treaty) could encourage Congress to delay ratifying the accords and possibly impose sanctions of its own.

The larger question concerns the future of US-Soviet relations which for the past three years have proved highly productive in terms of arms control accords, the liberation of eastern Europe, and the settlement or near resolution of regional conflicts.

Soviet officials have tried to reassure their US counterparts that a co-operative foreign policy will continue. The US has countered that co-operation and assistance must be contingent on political and economic reform.

Even before Mr Eduard Shevardnadze resigned as foreign minister, the warning signals had been flashing: a disintegration of central authority in Moscow; signs of an anti-western backlash within the Soviet policy-making apparatus; and the emergence of a hardline conservative alliance embracing the KGB, Red Army, and elements of the Russian Orthodox Church, all rallying around the slogan of saving the Union.

In one revealing incident last December in Houston, Mr Baker confronted Mr Shevardnadze with evidence that the Red Army was moving conventional weapons east of the Urals to avoid them being destroyed under the CFE treaty. Mr Shevardnadze is said by a senior US official present to have sighed and declared: "In that case, they (the military) are lying to me."

The dominant view within the administration is that Mr Gorbachev has been forced to make concessions to the military in order to cling on to power, and his days as a reformer are almost certainly over. The question is whether there is anything the US can do to salvage perestroika.

Last year's package of US assistance was partly aimed at "getting Gorbachev through the winter", but it was also aimed at encouraging reformers to pick up the stalled economic liberalisation.

The difficulty for the US is that all the western talk of imminent economic collapse inside the Soviet Union may have made it easier for the conservative forces to gain strength. Equally, the temptation to deal with the Soviet leadership in Moscow – rather than cultivating other emerging sources of power in the republics – has inevitably hitched the administration to the Gorbachev wagon.

Attali brings colourful vision to the world of men in grey suits

The chairman of the European Bank for Reconstruction and Development has a missionary zeal, writes Judy Dempsey

HIS critics chastise him for his lack of banking experience. His supporters say he is exactly the kind of individual needed to bring the countries of eastern Europe back into the western fold.

Mr Jacques Attali, chairman of the new European Bank for Reconstruction and Development (EBRD), shrugs off all these sentiments. He is determined to make the new bank work. He is equally determined to convince the governments of eastern Europe that it is their bank too.

Attempting to reconstruct the economies of eastern Europe is a mammoth task. Mr Attali, who was appointed to head the bank last year, seems to thrive on the energy and the commitment. The bank's first visit to Bulgaria, last Thursday and Friday, is not untypical of the energy and commitment he invests into any project in which he becomes involved.

He is passionately interested in the future composition of the new Europe.

His is not the world of the "men in grey suits", so often characterised by the restrained and cautious language used by the banking community. Mr Attali brings his listeners into the workings of the bank whose origins go back to October 1989, when President François Mitterrand of France first mooted the idea.

"Where do you begin with reconstructing the countries of eastern Europe?" asked Mr Attali.

"The environment has to be tackled – these countries had to adopt regulations laid down by the European Community; accountants have to be trained; managers had to be found and taught. The first things these countries must begin to understand is that they need strategies. That is our role. We must begin to understand their needs; we must know who is in charge in these countries. In the following weeks, we will have sent missions to all these countries. We will leave some advisers there and then we can build strategies."

Mr Attali is quick to point out that the EBRD is not modelled on the World Bank, nor is it a development bank. "I say to the new governments in eastern Europe: I am not here to give you money, but to advise you. We tell these countries that they are partners – what is good for you is good for Europe. That's why we are different from the World Bank – we do not want to let these countries think they belong to the Third World."

All the countries of eastern Europe hold a share in the bank. Bulgaria holds 0.79 per cent of the bank's capital stock; the countries from the European Community, including the European Investment Bank and the EC Commission, 51 per cent, and the US 10 per cent.

Mr Attali has no illusions about the difficulties in rebuilding Europe. But his goal is to link the two Europes together physically. He talks about establishing east-west links in the form of roads, railways, pipe lines. But he also believes, despite recent developments in eastern Europe, it is a grave mistake to exclude the Soviet Union.

"There is already a brain drain taking place from all these countries. This is a great tragedy," he comments. More than 100,000 young Bulgarians have left their country over the past year.

In Bulgaria, Mr Attali told students that the market economy was not exclusively tied to the black economy. All kinds of consumer goods are finding their way into the black market in these weeks of acute shortages. "The market should not be identified with short-term profit," he told them.

He spoke of the need for a competent civil service, of the need to break out of the old egalitarian attitudes and of the need for risk-taking. He said it would not be easy. Neither will the tasks facing the EBRD.

Attali: passionately interested in the future of a new Europe

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Congress to keep tight rein on funds for S&L rescue

By Peter Riddell, US Editor, in Washington

THE US Congress looks likely to grant only limited temporary funding to sustain the rescue of the savings and loan industry, following widespread public and political concern about the soaring cost to taxpayers.

Mr William Seidman, chairman of the Resolution Trust Corporation, the federal agency responsible for the rescue, warned last week of the urgent need for more funds to stop the rescue rate from slowing further.

There is, in practice, an open-ended obligation ultimately to provide money under the federal deposit guarantee system.

Legislation to provide necessary funding for the RTC failed in late October as Congress went into recess. The rescue has only been sustained, at a lower than intended level involving the taking over and closing of failed thrifts, by exploiting a legal loophole allowing temporary extra borrowing.

This source of funds will run out next month and Mr Seidman has warned that, without new finance, the RTC would "not be able to do its job" and funding would have to come solely from assets it sold.

This will increase the ultimate cost to taxpayers as losses will mount before troubled thrifts are taken over.

The RTC had previously estimated it needed $100bn (£52.9bn) in the current 1991 fiscal year, of which $40bn would be for losses on failed thrifts and $60bn for working capital to cover the cost of acquiring and holding assets before they could be sold.

Mr Seidman has said that "the amount [for fiscal 1991] will be somewhat less than that probably, because we won't be able to catch up on what we've lost as a result of this delay."

Leaders of the Senate banking committee want to move rapidly on the request for additional finance. But there is rank-and-file opposition, especially in the House, to providing such a large amount of taxpayer support, some in the form of additional borrowing powers.

Consequently, the most that is likely to be approved is a limited and temporary request for finance, perhaps lasting until the summer.

Bush nominates advocate of tax cuts for Fed post

PRESIDENT George Bush yesterday nominated Mr Lawrence Lindsey, a White House economist and advocate of tax cuts, to fill a long-standing vacancy on the Federal Reserve Board, Michael Prowse writes from Washington.

Mr Bush also nominated Mr David Mullins as vice-chairman of the Fed, a post that has been vacant since the resignation of Mr Manuel Johnson last June. Mr Mullins, who became a governor last year, was Mr Bush's first appointee to the Fed.

The appointments, which are subject to confirmation by the Senate, are unlikely to influence strongly the Fed's conduct of monetary policy. Mr Johnson, like Mr Lindsey, was a supporter of supply-side economics.

Mr Lindsey, 36, has a doctorate from Harvard University where he was student of Mr Martin Feldstein, a former chairman of the Council of Economic Advisers under President Ronald Reagan.

While at the White House, Mr Lindsey helped formulate the administration's plans for reforming the banking industry. He has not taken a strong stance on monetary policy issues.

Mr Mullins, 44, is a former Harvard Business School professor and senior Treasury official.

Brazilian businessmen in child death probe

By Christina Lamb in Rio de Janeiro

THE Brazilian government is investigating the alleged involvement of businessmen in financing "death squads" to assassinate children living on city streets.

The accusation of business involvement was made by Mr Alceni Guerra, minister of children, at a meeting with businessmen in Rio de Janeiro. He refused to reveal which concerns were being investigated but said that four were in Rio and others were in São Paulo, Bahia and Amazonas.

The execution of street children in Rio by organised gangs was brought to light last year by Amnesty International, the London-based human rights organisation, which claimed large-scale police involvement.

Local groups allege the death squads are financed by businessmen and hoteliers anxious to "clean up" Rio streets and reduce petty crime, which has reduced tourism.

Rio has the biggest concentration of Brazil's estimated 7m street children and the country's worst crime rate. About 445 street children were assassinated in the city last year, according to the National Movement for Street Children.

Menem loses debt adviser

A CONSERVATIVE economic adviser to President Carlos Menem of Argentina resigned last week, it emerged yesterday, John Barham writes from Buenos Aires.

Mr Alvaro Alsogaray, leader of the militantly anti-Peronist UCD party, was an adviser on foreign debt to Mr Menem's Peronist government. He embodied the president's remarkable political heterodoxy and his conversion to economic liberalisation.

Neither Mr Alsogaray nor the government would explain the move, although some analysts said Mr Menem might be planning to shuffle his cabinet. It is unlikely the government will abandon its free-market policies.

Collor's inflation crusade wins few converts

Few Brazilians want to make sacrifices for the long-term good, writes Christina Lamb

WHEN the directors of a Brazilian bank last week reviewed their projections for this year they decided to raise their estimates for inflation. There were smiles all round – the higher figure would mean an increase in profits of $5m.

This is the kind of mentality which President Fernando Collor de Mello has to overcome if his mission to tame inflation is to succeed. Ten months into the most extreme economic adjustment plan in Brazil's history – involving freezing the cash in many of the nation's bank accounts – the indicators do not look good.

Inflation, now at 20 per cent a month, is significantly lower than the 80 per cent the Collor administration inherited last March.

But the monetary tools on which the government is relying have hurled Brazil into its worst recession for a decade while attempts to defeat the "inflationary culture" and convince Brazilian society of the need to sacrifice for the long-term good have so far proved ineffective.

This is partly the result of Mr Collor's aloofness and the inexperience of his government. Likening himself to a lone hunter stalking a tiger, the 41-year-old president thought he could defeat inflation with the single bullet of his shock economic plan, predicting it would fall to 6 per cent by last month.

Mr Antonio Kandir, secretary for economy policy, claimed yesterday that Brazil could not survive without a national understanding. But this realisation may have come too late.

Only after inflation started spiralling in September did the government begin negotiating with businessmen and unions on a social pact.

So badly were these talks handled that the government succeeded instead in uniting business and labour against it. Similarly in its crusade against generally unpopular multinationals and big business the economic team has contrived to cast itself as the public villain.

Negotiations with Congress have also been a fiasco, with politicians repeatedly defeating government attempts to end monthly wage indexation to price rises – a 30-year-old practice which the government believes is responsible for inflation.

Fernando Collor: started year with new package of spending cuts

Mr Collor is now so politically isolated that he is wooing Mr José Sarney, the former president who commands the support of 60 parliamentarians, by restarting Mr Sarney's $2.4bn (£1.26bn) north-south rail project.

Mr Collor condemned the project in his election campaign and the country cannot afford it.

Equally telling, scarcely a military ceremony goes by without Mr Collor's attendance, suggesting an attempt to quieten rumblings in the ranks of the men who until 1986 ruled Brazil.

The president has set in motion important long-term reforms, such as the opening of the Brazilian market, which cannot easily be turned back. But the emphasis he placed on defeating inflation and the unrealistic targets set make it only too easy to judge him harshly over the short term.

Brazil ended 1990 registering its highest annual inflation rate, at 1,800 per cent, a fall of 11 per cent in industrial activity in the country's key industrial centre, a contraction in gross domestic product of 4 per cent, a 21.22 per cent decrease in the harvest and a 66 per cent fall in the value of the stock market.

The danger is that the resulting social pressures might force the government to compromise. Mr Carlos Langoni, a former central bank governor, says: "The problem is the gap between objectives and results. My fear is that if results don't appear sooner the government will revert back to artificial measures, such as price freezes and subsidies which do not tackle the basic problem."

Mr Joel Korn, area manager of Bank of America, agrees: "The battle against inflation has to be a non-negotiable position. There is no room for gambling against the failure of this government in defeating inflation because to do this is to gamble against our own future."

But that is exactly what many people are doing, perhaps unaware of how high the stakes are. Businessmen generally agree with the Collor mission to kill inflation – but they want it to be at someone else's cost.

Rather than cut profits they have cut production and implemented ludicrously high price rises to hedge against future hyper-inflation or price freezes. Mr Paulo Protasio, head of Rio's Commercial Association, explains: "Everyone wants to end inflation, but they don't know how to live without it."

Without significant support in any section of society, can the Collor government win over a people deeply sceptical of economic plans, having seen three fail in the last four years?

Many would say the latest plan can already be written off, particularly after Ms Zelia Cardoso de Mello, the economy minister, said last week that the country needed to find a new way to measure inflation, suggesting the fight is already lost.

Mr Collor's task has not been helped by the Gulf crisis, and a doubling in the fuel import bill. But by initially setting too short a timespan for his plan, he has lost credibility and tested the patience of society.

Mr Collor started the new year with a new package of spending cuts. But taxes remain indexed and the success of the last round of job cuts in the administration remains in doubt. In Rio de Janeiro, for example, the Institute of Sugar and Alcohol, officially declared extinct in March, was still operating yesterday.

With so many doubts, the government may be unable to bring monthly inflation down from double figures without a further economic shock. The government strongly denies any such intention but Mr Ibrahim Eris, the central bank governor, admitted: "It's going to be much harder than when we began to bring down inflation."

Mexico signs Central American free-trade accord

By Tim Coone in Managua and Rebecca Doulton in Mexico City

CENTRAL American states and Mexico have taken a tentative step towards integrating their economies by signing a framework free-trade agreement.

Under last week's accord, Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica will negotiate sectoral agreements bilaterally with Mexico, leading to free trade in a range of products which will grow over the next six years.

Under an expanded version of the San José accord, originally signed in the early 1980s, Mexico and Venezuela have also agreed to sell oil on highly concessionary terms to the five countries. This will help ease the region's severe balance of payments problems.

The deal is particularly significant in the light of the Gulf crisis. A sharp rise in oil costs would cripple the fragile economies of Central America, which already run an annual balance of payments deficit in goods and services of about $3bn (£1.58bn).

Mr Pedro Aspe Armella, Mexico's minister of the Treasury, said the total cost of oil imports would be returned to the five nations via two credit routes. About 20 per cent of the resources would go directly into the central banks of each nation and the remaining 80 per cent to the Inter-American Bank of Development (IABD) to finance development projects under moderate interest rates and five-year repayment schemes.

If the price of oil exceeds $27 a barrel the 20:80 ratio will change to 30:70, thus increasing direct deposits to central banks. This financing mechanism, which does not contemplate discounts or subsidies, is eliminated if oil prices fall below $17 a barrel.

The free-trade agreement will be implemented more slowly but significant advances are expected within a year. The Nicaraguan foreign ministry said yesterday that each country would initially seek complementary trade agreements with Mexico.

Nicaragua and Mexico were already negotiating a deal under which a broad range of products would have free access to the other's market.

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WORLD TRADE NEWS

Japan to raise fine for cartels

By World Trade Staff

JAPAN is to raise the maximum penalty for participating in an illegal cartel, in a move designed to soften complaints about the operation of its anti-trust policy expected to be lodged by the US in bilateral trade talks this week.

The talks, in Tokyo on *Thursday and Friday*, will review the so-called Structural Impediments Initiative (SII), under which the US has been urging Japan to modify the management of its economy to make it more open to imports.

Anti-trust questions are high on the agenda although, according to Reuter reports from Washington, the US will *also focus on Japan's failure to* encourage foreign investment in its economy, and the complex web of interlocking shareholdings between major companies.

In a separate report from Tokyo, Reuter said the new maximum fine for participation in illegal cartels would be raised to 6 per cent of turnover *from 2 per cent*.

The maximum will apply to manufacturing companies with a capital of Y100m ($751,800) or more. A lower scale of penalties will apply to smaller manufacturing companies and those in wholesale and retail distribution.

UK announces export-risk system

By Peter Montagnon, World Trade Editor

BRITAIN yesterday formally announced the introduction of a controversial new system for managing the portfolio of long-term risks insured by its Export Credits Guarantee Department.

Known as the portfolio management system (PMS), the new arrangements will result in increased premiums for more difficult markets where contracts are signed after the start of the next financial year in April. The arrangements also involve changes to the availability of cover.

The new system has been in preparation since the start of last year.

Entirely separate from the government's equally controversial plans to privatise the short-term credit insurance operations of ECGD, it has sparked deep worries among exporters that stiff terms for export credit insurance would make them uncompetitive on world markets.

A particular fear has been that cover might be withdrawn for some markets, deemed of significant importance to UK capital goods exporters, such *as Hong Kong and Southern* Africa, where ECGD already has a high exposure.

Mr Peter Lilley, Secretary of State for Trade and Industry, said in a written parliamentary statement that the government continued to attach great importance to capital goods exports and to maintaining "a viable and stable framework of ECGD support".

However, he said that ECGD's deficit had already risen to over £2.5bn ($4.8bn) as a result of claims paid in the wake of the developing-country debt crisis.

Further substantial claim payments, estimated at around £2.5bn, are expected over the next few years.

The *claims have to be* financed by the taxpayer, he said. "It is important that future risks are underwritten on a prudent basis."

Under the portfolio management system, premium rates would be better matched to risk, and, although some would rise, those for better quality risk would fall.

The government had also taken decisions on the availability of cover for certain markets, but details would not be revealed publicly, Mr Lilley said.

The purpose of PMS is to provide a more disciplined and prudent framework for taking decisions about ECGD support for exports, he said.

Export credit officials have stated in the past that it is based on a careful mathematical assessment of insurance risk. This would allow the government better to weigh national interest reasons for giving insurance support to exporters, Mr Lilley added.

Czechs and French in power accord

CZECHOSLOVAKIA has asked France for advice on modernising its nuclear power industry, under a technical co-operation accord announced yesterday, William Dawkins *reports from Paris.*

France's state-controlled Commissariat à l'Energie Atomique (CEA) is to help its Czech equivalent, CSKAE, update eight Soviet-designed reactors, co-operate in designing and building future power plants, and advise on safety and public information. Prague is considering building six more reactors.

The deal confirms that Czechoslovakia will keep on developing nuclear energy, despite opposition from ecologists. It advances French business links after Renault, the state-owned car maker, lost to Volkswagen of Germany as a partner for Skoda.

CEA will help to train Czech nuclear engineers, while Cogema, its nuclear fuel subsidiary, will study possible fuel recycling from Soviet-designed reactors and advise on modernising a uranium mine near Prague.

Framatome, the French state-controlled nuclear reactor builder, is negotiating possible joint nuclear plant construction with Skoda-Pilsen and Vitkovice, the Czech boiler and steam turbine makers.

Computer makers may have to raise prices

EUROPE'S computer makers face new pressure on margins and may be forced to raise prices because of a rise in costs of Japanese memory chips, Alan Cane writes.

They were told late last year *that the average price of the* basic unit of computer memory (a one million-bit DRAM) would rise 15 per cent after Japanese manufacturing costs rose.

The cost of Japanese-made semiconductor memory is controlled in Europe by a controversial formula which relates chip price to manufacturing cost calculated from information supplied by 11 main Japanese chip makers.

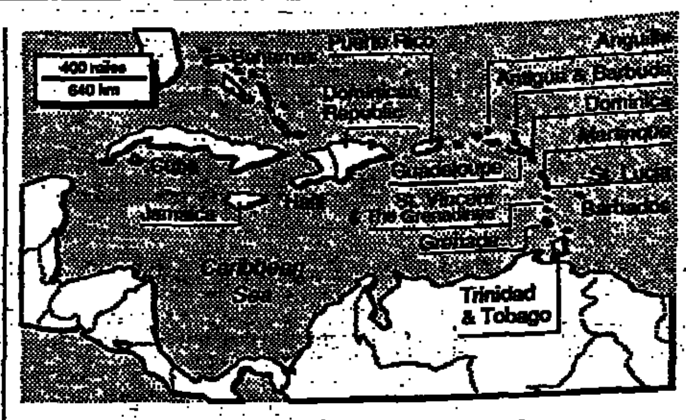
The formula, which gives a minimum or European refer*ence price*, was agreed after a Commission inquiry into alleged dumping by Japanese makers. But European computer makers believe the formula distorts the chip market to Japanese advantage.

Mr James Eastlake, trade policy analyst for Dataquest market consultancy said: "Where European makers planned for a 5-10 per cent reduction in DRAM costs in the first quarter of 1991, the European reference price has forced Japanese vendors, who supply nearly 70 per cent of the world's DRAMs, to increase European prices".

Dr Bruno Lamborghini, Olivetti vice-president, planning, said it was impossible to understand how Japanese manufacturing costs for one million bit DRAMs could have risen. Olivetti would have to accept increased pressure on already tight margins.

Mr Sadru Nanji, components manager for ICL, the UK-based mainframe maker owned by Fujitsu, said the higher cost would inevitably affect the company's competitiveness.

He understood that the Japanese were anxious to move customers from one million bit DRAMs to four million bit DRAMs which offered higher profitability but it was not an easy change to make.



Caribbean pins its hopes on the fickle tourist

Canute James on how the holiday trade could avoid recession

CARIBBEAN hoteliers and the administrators of the region's tourism have decided that the sun could still shine on their share of the leisure travel trade despite developments in the Middle East, increasing air fares and changes in the parity of major currencies.

While the region will hold on to travellers from the traditional North American market, there are indications that the European and Far East (mainly Japanese) market could grow rapidly in the next few months.

Slightly more than last year's 10.8m stopover visitors are expected by the region this year. Visitor arrivals grew by 43 per cent between 1985 and 1989, compared with growth of 23 per cent for world tourism.

It is in uncertain times such as these that the region's weak economies need fickle tourism. The trade earned regional economies $7.8bn in 1989, bringing some sanity to national accounts burdened by growing merchandise deficits. It relies, however, on the health of the industrialised economies.

"We are concerned at the possibilities of a slowdown in the US economy, and the possible effects this could have on travel," said Mr James Smith, governor of the Central Bank of the Bahamas where tourism accounts for about 70 per cent of gross domestic product.

"There is also concern at increased operating costs in the industry as a result of energy price increases caused by the Gulf crisis."

Mr Jean Holder, executive director of the Caribbean Tourism Organisation, agreed that recent international developments represent a threat to Caribbean tourism. He said, however, that it is not only the region, but also its competing resorts, which are threatened. "This forces prospective travellers to think twice about taking a foreign holiday," he added.

Many hoteliers share his conclusion that developments such as the Gulf crisis make the Caribbean appear a safer holiday destination than the Mediterranean, particularly for North Americans who traditionally account for six out of every ten tourists visiting the Caribbean.

But concerns about safety of resorts can eat into the Caribbean's market share. The slowdown in the rate of growth in recent years in the volume of visitors from North America, particularly the United States, has been attributed to a growing tendency to stay at home. More Americans, say Caribbean officials, are tending to take domestic holidays, with several states promoting themselves as alternatives to a foreign holiday.

The region hopes to make up for this with increasing numbers from Europe because of the strengthening of European currencies against the dollar, to which Caribbean currencies are pegged.

"We charge about $100 per room," explained the manager of a Barbadian hotel. "Nine months ago a visitor from Britain would pay £66 ($127) to stay the night. Now that visitor pays just over £50. In a week that is a significant saving." Europeans tend to stay longer than Americans and spend more, say hoteliers.

Mr Holder said there could be a benefit from both ends. While there is an advantage for Europeans because the region's currencies are pegged to the dollar, the Caribbean could also be attractive to North Americans willing to take a foreign holiday because they will find a European holiday more expensive.

All this could be meaningless, of course, if war breaks out in the Middle East, affecting not only heightened concerns for personal safety, increasing economic problems for the industrialised countries, more expensive travelling and the likely reduction in airline seats from the United States if aircraft are requisitioned for use by the military. And the coming winter may not be harsh enough to drive shivering hordes southward in search of the sun.

Even in periods of international calm, Caribbean tourism faces some potential problems which could hamper its share of traditional markets. The political changes in eastern Europe have opened up an alternative destination for many prospective travellers from North America, particularly those who have their ethnic roots in these countries. Mexico continues to be a destination which the Caribbean fears could do most damage to the region's trade. Hoteliers admit that a Mexican holiday is a better bargain.

Yet even within the region there is increasing competition for a greater share of the market. The Dominican Republic is expanding its capacity, currently at about 20,000, to 25,000 by 1992. The country has been attracting increasing numbers of European charters and the sector, which now accounts for 12 per cent of the country's GDP, is expected to earn $775m this year, $100m more than last year.

Amid its mounting economic problems Cuba, which eschewed tourism after Mr Castro's revolution, is creating joint ventures with foreign investors such as the Sol Melia group of Spain, to build 5,000 new rooms, bringing the island's capacity to 18,000. The embattled economy earned $300m from foreign visitors last year, with most coming from Canada, Latin America and western Europe. Cuban officials say when the proposed expansion in capacity is complete, the island could earn $500m per year.

The expansion in capacity by these two countries does not unduly worry some of their neighbours. "The type and quality of service we offer should protect us from competition from places such as Cuba and the Dominican Republic," said Mr Norman Bodden, the Cayman Islands government member responsible for tourism, aviation and trade.

"The opening up of Cuba and expansion in the Dominican Republic will affect some countries, but we are English-speaking with a large market in the United States, which is English-speaking."

Macao to join Gatt

MACAO has become the 101st member of Gatt after Portugal declared the tiny enclave at the mouth of the Canton River had full autonomy for its external commercial relations, William Dullforce reports from Geneva.

Gatt also received a declaration from Peking confirming Macao will continue to meet requirements to be a Gatt member from December 20, 1999, when it reverts to China.

China, still negotiating its own return to Gatt, has guaranteed Macao 50 years of non-interference, as with Hong Kong.

Gatt rules have been applied to Macao since 1962.

With total exports of $1.4bn in 1988, Macao is a significant exporter of textiles and clothing, mainly to the US, Hong Kong, and the EC.

UK NEWS

Brussels says single market threatened by UK attitude

By Diane Summers, Labour Staff

THE completion of the European internal market by the end of 1992 is in jeopardy because of the UK's refusal to agree to elements of the European Commission's social action programme, Mrs Vasso Papandreou, European commissioner for social affairs, warned yesterday.

She accused the UK of being negative in principle to commission proposals and challenged the government to prove its figures on the alleged costs of reforms.

Mrs Papandreou met Mr Michael Howard, employment secretary, for talks in London yesterday. She said before the talks that she had "noticed a change in style" since Mrs Margaret Thatcher had been replaced by Mr John Major as prime minister. However, she had yet to see "if it was going to be a change in substance as well," she said.

She added that she wanted the UK to adopt "a more positive attitude on social issues" and play a more constructive part in European affairs.

The government has been unwavering in its opposition to reforms relating, in particular, to part-time work and working time.

Mr Howard said after the meeting that it was clear from the most recent meetings of the EC social affairs council that the UK was far from being isolated in its opposition to the proposals.

"I urged the commissioner to follow the lead set by the European summit in Rome last December, whose conclusions called for priority to be given to proposals to improve health and safety at work, and those on which rapid progress can be made towards full agreement in the Council of Ministers."

Mr Howard added that the government supported a social dimension to the EC but that had to be focused on creating and sustaining employment.

He said: "Some of the commission proposals will add unnecessarily to business costs and reduce flexibility – we must not forget that European businesses have to compete in world markets."

Bank of England says anti-inflationary measures must continue

Tories urged to stand by tough monetary policies

By Rachel Johnson, Economics Staff

THE government was last night warned not to relax its tough monetary policies until it had achieved "a decisive downturn" in UK inflation.

Mr Robin Leigh-Pemberton, the governor of the Bank of England, encouraged the government to resist calls for a cut in interest rates or a lower exchange rate for sterling in spite of more gloomy news from Britain's retailers.

A tough stance was the only way to treat the "running sore" of inflation, Mr Leigh-Pemberton said. To relax prematurely would build up inflationary pressures and severely dent the credibility of policy, he said.

Latest figures showed that annual growth in retail sales volumes last year was at its weakest since the 1981 recession, in spite of an unexpected bounce in December.

Mr Leigh-Pemberton acknowledged that there was an inevitable price to be paid for keeping rates deliberately high for two years.

"Sadly, 1991 is likely to be a hard year for everyone, and a painful one for many... there have already been company failures. And it would be foolish to pretend there will not be more," he told Scottish bankers at a meeting in Glasgow.

The Central Statistical Office's data for 1990 showed that sales volumes in 1990 as a whole were just 0.75 per cent higher than in 1989, the smallest increase in annual sales growth since the 1981 recession. At the time of strongest consumer spending in 1988, retail sales volumes were growing at an annual rate of 6.9 per cent.

In December, the month which normally accounts for almost a fifth of the year's sales, volumes were down 0.5 per cent compared with the previous year.

The Retail Consortium, representing 90 per cent of the industry, said that it was apparent throughout Christmas trading that adverse economic conditions were having a significant effect and consumers were being more cautious.

Following a depressed November, however, sales rose by 1.9 per cent on the month – much higher than the 0.1 per cent fall which the market had forecast.

Government officials stressed that December figures were especially erratic, as sales volumes over the five-week December period were generally very heavy. The fact that shoppers had evidently flocked to early December sales had helped to make adjusting the seasonal figures more difficult than usual, the CSO said.

City economists also tended to dismiss the December figure – the second largest month-on-month increase since May 1989 – as inconsistent with other indicators and industrial surveys showing consumer confidence to be extremely subdued.

The Treasury said it was better to analyse the underlying trend rather than the monthly figures. Sales in the three months to December were 1.1 per cent lower than in the previous three months. "We cannot distinguish whether this is a nascent recovery or a seasonal blip," it added.

● British bank lending in sterling rose by £10.45bn in the three months to the end of November 1990, compared with £8.76bn in the previous quarter according to Bank of England figures yesterday.

The total outstanding lending in sterling to UK residents at the end of November was £380.79bn. Over the three-month period lending to the personal sector for house purchases rose by £1.2bn, or just 1 per cent.

During the three months lending to UK residents in other currencies increased by £1.44bn compared with a rise of £2.86bn the previous quarter.

British teachers told to have no time for history after 1950

By Norma Cohen, Education Correspondent

HISTORY lessons in England will roughly end at the year 1950, following a draft parliamentary order on the history curriculum submitted yesterday by Mr Kenneth Clarke, education secretary.

In response to a parliamentary question on the new National Curriculum, Mr Clarke, refering to the teaching of history post-1900 said he wished to make it clear "that the focus of study of this unit should be the first half of the twentieth century."

The proposal, in draft form, will be open for consultation until 15 February with a final decision to be made in March.

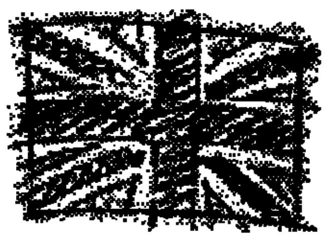
Mr Clarke said his decision reflects the view that "it is right to draw some distinction between the study of history and the study of current affairs." Recent events, such as those beginning in the 1960's where the participants are still alive, fall into the category of current affairs, the government explained.

There is no specific place for the study of current affairs, although some of it could be incorporated into the geography curriculum.

While teachers will not actually be constrained from teaching pupils about more recent events, they are discouraged from emphasising them. The DES said the 1950's cut-off point will be revised as time goes by.

In other respects, Mr Clarke said he is to adopt the national curriculum in history largely as recommended by the independent National Curriculum Council. It would focus names, dates and places.

BRITAIN IN BRIEF



France warms to hard Ecu

MR John Major, the prime minister, won a warm reception from France for British proposals to develop the European Currency Unit as a common European currency.

The government drew considerable encouragement from the reaction to its plan when Mr Major met France's President Mitterrand in Paris. French ministers were "rather positive", according to one official.

Mr Major appears to have persuaded the French government that a plan such as the "hard Ecu" could be a useful stepping stone before full economic and monetary union – even if the UK has not yet committed itself to the goal of a single currency.

BBC forced to make cutbacks

The BBC has been put under pressure to make substantial cuts following the announcement that the television licence fee will rise next year by 3 per cent below the inflation rate. All owners of television sets are required by law to buy a licence, the money from which funds the BBC's two channels.

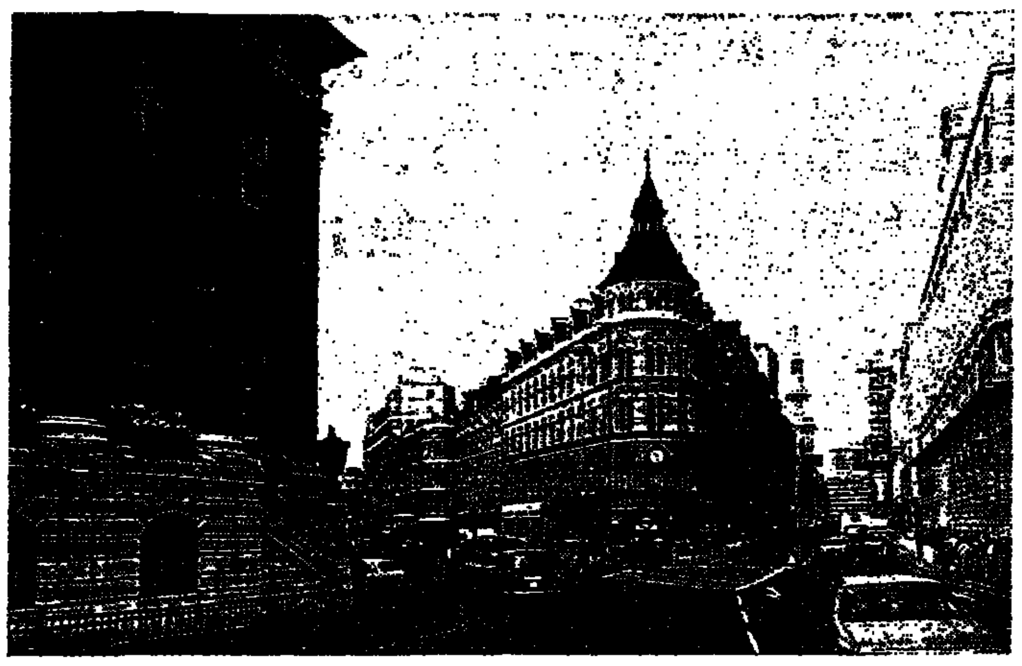
Mr Michael Checkland, BBC director general, believes the new licence formula to be "challenging but manageable".

Companies told to pay promptly

Businesses that consistently fail to settle bills on time have been told to pay up promptly by Sir Brian Corby, president of the employers' organisation, the Confederation of British Industry.

His initiative follows a survey, conducted jointly with Cork Gully, the insolvency arm of Coopers and Lybrand Deloitte, which shows that late payment of bills is endangering the survival of one in five small businesses.

The survey suggests that 20 per cent of companies consider it normal to wait for more than 75 days beyond the specified payment date before settling invoices.



Lords assess City plans to demolish Victorian site

The House of Lords, the UK's upper chamber, has been asked to approve Lord Palumbo's scheme to demolish eight listed Victorian buildings in the City of London. The plans to knock down the buildings on the Mappin and Webb site (above) and erect a modern structure – likened by the Prince of Wales to a "1930s wireless" – were blocked by the Court of Appeal last March. The disputed buildings, opposite the Bank of England, were described by a government inspector as one of the best, if not the best, group of surviving commercial Victorian buildings in the City.

Graduate jobs in decline

Graduates are likely to find it much more difficult to secure jobs in 1991, particularly if they lack vocational degrees, according to Mrs Helen Perkins, chairman of the Association of Graduate Recruiters.

Forecasts of demand for graduates from September 1991 roughly equal those of 1990, but the pool of applicants has risen by 4.9 per cent.

Mrs Perkins said actual demand in 1990 had been 5 per cent below forecast, a pattern likely to be repeated this year. "Overall, the downturn is in the region of 10 per cent, unless employers substantially cut hiring plans," she said.

Rail crash statement

The design of the rolling stock involved in last week's Cannon Street train accident may have contributed to the extent of injuries among passengers, Mr Malcolm Rifkind, the transport secretary, has admitted. One person was killed and 248 injured in the crash.

However, when he was pressed by MPs from all parties to speed up the introduction of modern carriages on Network South East, Mr Rifkind defended both British Rail's investment programme and the organisation's safety record.

In a statement to parliament, Mr Rifkind said that, although the carriages were among the oldest in service, there was no reason to suppose this was a factor in the accident.

Housing market recovers slightly

Signs of a slight recovery in the housing market are indicated by a national survey of estate agents published by the Royal Institution of Chartered Surveyors.

The institution said: "Although the signs are not evenly spread through the regions, there is evidence that confidence is beginning to build up, particularly at the lower end of the market, with prices stabilising and a rise in the number of instructions and enquiries."

Newspaper wage freeze

The Guardian and Manchester Evening News newspapers are to impose a 12-month wage freeze on all employees amid worries about a sharp loss in advertising revenue. The Guardian expects to lose £12m in the next financial year.

Leaders of the National Union of Journalists at the Guardian said they would consider industrial action if they could not persuade management to adopt an alternative strategy.

The Guardian's directors decided on Friday to impose a wage freeze and give notice on the terms of redundancy. The newspaper has been seeking voluntary redundancies among journalists.

Edinburgh to get £43m optical fibre calls system

By James Buxton, Scottish Correspondent

BRITISH Telecom, the UK telephone and communications company, has embarked on a £43m project which will make Edinburgh the first city in Britain to have a completely digital telecommunications system based on an optical fibre cable network.

The company said yesterday it would have the most advanced network in Europe when the project is completed in March next year.

Instead of upgrading the telecommunications in the city by incremental steps over a five-year period, as is happening in other UK cities, BT has chosen Edinburgh to be its pioneer city with a state of the art telecommunication system.

The project involves completing the installation of digital switching equipment in 11 of the city's exchanges, covering all but the periphery of Edinburgh; laying an optical fibre cable network between the exchanges; renewing local connections between exchanges and business or domestic customers, often using optical fibre cables; and replacing the equipment of customers who rent from BT to make them compatible with the digital system.

The project, named Edinburgh Telezone, means that business and domestic customers will have easy access to high speed, high quality digital communications services such as videophone and high speed fax.

"This is a project to test what happens when you install all the innovations in telecommunications in one place," said Mr Bill Furness, BT's general manager for the East of Scotland.

"It is the blueprint other cities are going to follow," he added.

BT chose Edinburgh because of its relatively compact scale, with a population of 450,000 and 150,000 BT customers, including several important financial institutions. No government money is involved in the project.

Technology, Page 14
Liberalisation spreads across the world, Page 16

Power companies plan £100m coal import terminal

By Gerard McCloskey

AN AGREEMENT to finance and run the largest coal importing terminal in the UK is close to being signed by PowerGen and National Power, the two electricity generating companies due to be privatised next month.

The £100m terminal, which will be on the Humber estuary on England's north east coast, will be run as a joint venture with Associated British Ports.

The port is at the centre of the generating companies' plans to lessen their dependence on supplies from British Coal, the nationalised coal supplier.

The terminal has an initial design capacity of 12m tonnes a year which could be expanded at a later date. The two companies have nearly 14,000MW of combined capacity within 50 miles of the terminal, together capable of consuming 35m tonnes a year.

The terminal is due for first operation in the second half of 1993 shortly after the generators' three-year coal supply contract with British Coal ends.

PowerGen and National Power are each planning to take 40 per cent in a company which is to equip and run the terminal, with ABP holding the remaining 20 per cent.

ABP will provide the infrastructure – costing around £50m – and the new company will fund the necessary unloading and handling equipment, which is also expected to cost around £50m.

Further details about the terminal, which will transform the ability of the power companies to import coal, are in the latest issue of International Coal Report, a Financial Times newsletter. Apart from cutting at least £5 a tonne from the cost of importing via mainland Europe, the port will be able to take vessels of up to 150,000 tonnes, compared with 20,000 tonnes on the Thames (the UK's main importing region) and 70,000 tonnes into Liverpool

Planning permission for the terminal, near Immingham on the south side of the Humber, was granted last year despite opposition from British Coal and the National Union of Mineworkers.

Cost of raw materials falls

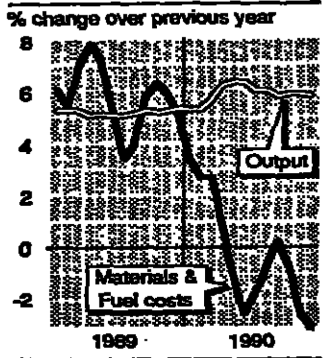
A LARGE drop in the prices of raw materials and fuel purchased by manufacturers has given the sector much-needed relief, adding to a decline in inflationary pressures at factory level, writes Peter Marsh.

Provisional figures from the Central Statistical Office yesterday indicated that raw material and fuel prices fell by 3.1 per cent in December compared with the same period in 1989. This is the biggest year-on-year drop for this indicator since November 1986.

The decline in input prices is explained largely by sharper competition among materials suppliers, partly due to tough trading conditions linked to recessionary forces.

The general fall in these prices has been offset only by the large year-on-year increase in prices for petroleum products, caused by the Gulf crisis.

UK producer prices



It provides UK manufacturing, which in recent months has been hit by weak demand both in the UK and in export markets, with a few crumbs of comfort as the sector attempts to ride out the recession.

Manufacturers have been particularly affected by falling prices for metals, especially aluminium, steel and copper.

Northern Ireland tries to escape recession

Economic hope is replacing the gloom in Britain's poorest region, writes **Kieran Cooke**

Soft landing: state aid should ensure the survival of concerns such as Shorts and Harland & Wolff (pictured above)

LOOK at most economic statistics and Northern Ireland comes bottom, or near the bottom, of the chart.

Unemployment rates consistently exceed those in others parts of the UK by between 4 and 8 percentage points. Output is lower than in most other regions. In 1989, GDP per head in the province was 24 per cent below the national average and more than 40 per cent below the south-east of England. Incomes are the lowest in the UK – gross full time male earnings averaged £231 per week in the province in 1989 compared to £313 in the south-east.

Such statistics have led the EC to classify Northern Ireland as the only underdeveloped region in the UK. Yet, on the face of it, many parts of Northern Ireland do not appear to be disadvantaged.

It is hard to walk the streets of Belfast without tripping over a new shopping centre. London second hand car dealers travel to Northern Ireland to buy because prices are low. More new BMWs are sold per head in Northern Ireland than anywhere else in the UK.

Mr Michael Smyth, a senior lecturer in economics at the University of Ulster, describes the Northern Ireland economy as "topsy turvy" - part of, but not really integrated with, the rest of the UK economy.

"The boom that happened almost everywhere else in the mid-80s was only a whimper here," said Mr Smyth. "That means that growth in Northern Ireland was much slower. But it also means that as things go into recession elsewhere, we have less far to fall."

While much of Northern Ireland's economy has lagged behind general UK developments, performance in some areas has been impressive. Industrial output over the last 18 months has risen by about 8 per cent, while there are 10,000 less unemployed.

Privatisation of two of Northern Ireland's biggest concerns – Shorts and Harland and Wolff – has been completed, much to the relief of the government. Though privatisation was achieved only after a considerable input of government funding, both enterprises now seem to have taken on a new lease of life.

The growth in consumer spending in Northern Ireland continues. Shopkeepers in central Belfast reported a 30 per cent increase in sales in the 12 months to August this year compared to the previous period. Though sales have dipped recently, there is still far more bustle in Belfast than in most other UK cities. In Londonderry a £60m shopping complex is being built in the city centre.

The scale of growth in the consumer sector has led to some peculiar developments in the structure of the workforce. While Shorts, with more than 7,500 employees, is still the top employer in the province, supermarket chains such as Wellworth and Stewarts are near the top of the employment league – well ahead of the more traditional employers in clothing and light industry.

Women workers predominate in the retail sector: long term male unemployment remains one of Northern Ireland's greatest problems.

The ongoing spending boom in the province is largely due to that fact that though wages are low in comparison with the rest of the UK, people generally have a higher proportion of disposable income. The dramatic mid-80s leap in house prices failed to percolate through to Northern Ireland. The average mortgage in the province is £27,500; a mortgage of £40,000 is the exception and would be for a substantial property.

About 40 per cent of Northern Ireland's workforce is employed in the public sector. Wages from such jobs, at national pay rates, go further in Northern Ireland.

"For those people with a job, life here is pretty good," said one senior government official. Northern Ireland has escaped many of the public expenditure cuts of the rest of the UK – partly due to local political considerations. Medical and education services are reputed to be the best available in the UK. In 1988-89 the subvention from the Exchequer, excluding costs of the security forces, was £1.7bn.

While public spending has promoted growth and a consumer boom, it has also tended to hide real problems and foster attitudes of economic dependence on central government. Policy is changing. Mr Richard Needham, Northern Ireland's Minister for the Economy, says the emphasis now is far more on increasing competitiveness rather than strictly on job creation.

"Northern Ireland has been too inward-looking. Now we are emphasising marketing and management skills, research and development – and just urging people to look outwards, not just to the mainland but to Europe and other markets," said Mr Needham.

While efforts are being made to loosen the state's influence on the local economy, the government is determined to play a leading role in many areas.

A policy document issued in the middle of the year emphasised the government's determination to push through various management and marketing programmes, redirecting state funds to specific projects.

Mr Needham says the new policy marks a change of direction for the province. "In a small economy like this you can quickly see the changes. There are now thriving industries, both big and small, all over the province, supplying not just the mainland but Europe and other markets," said Mr Needham.

"Despite all the political problems there is every reason to feel confident about Northern Ireland's future."

Continued on Page 21

MANAGEMENT: The Growing Business

Rescue and recovery is the resolve

Charles Batchelor on the positive approach to recession-hit companies

In the 1981 recession the company which looked likely to be unable to meet its commitments to its bankers could expect to be put into the hands of a receiver. In the current recession there is a greater chance that the business in difficulties will be asked – at its own expense – to call in a team of accountants to see whether they can achieve a turnround of its fortunes.

"The philosophy of lenders has changed," comments Bill Roberts, head of corporate advisory services at accountants Ernst & Young. "Rather than assume the worst there is a greater tendency to call for an accountant's review."

One reason for this shift has been the passing of the 1986 Insolvency Act which has given troubled companies greater breathing space by allowing them to go into administration rather than receivership.

The result has been a sprouting of turnround or recovery teams alongside the traditional insolvency departments at many of the larger accountancy firms. Often this is no more than the grouping together under one title of the firm's existing range of investigation and consultancy services. But the accountants' decision to re-package their services in this way reflects a fundamental shift in attitudes by many lending institutions.

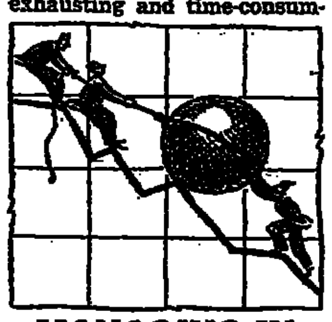
The venture capital industry, provider of equity finance to many growing businesses, has also adjusted to the tougher economic climate by devoting greater resources to monitoring its investments. Nick Jolliffe, an accountant with experience of corporate recovery work, joined the 22-strong executive team at Lloyds Development Capital six months ago to provide help to troubled companies in its portfolio.

Venture capitalists have an advantage over banks in that they usually have closer and more frequent contact with the companies in which they are invested and they do not charge for their advice to companies in difficulties. "We are a free resource and, unlike a team of accountants, we are already known to the management," says Jolliffe.

This does not mean, however, that the venture capitalists will be any more forgiving in their judgment of management failings. "We try to avoid conflicts but that does not mean we are soft," says Jolliffe.

There will also be a financial cost if the venture capitalist is only ready to provide extra funds on more onerous terms than his original investment.

For managers, dealing with investigating accountants is an unnerving experience. "It is an exhausting and time-consuming process for a company," says Mark Batten, partner in the corporate reconstruction department at accountants Price Waterhouse.



MANAGING IN RECESSION

The directors may not have the financial projections or analyses which the accountants need. Senior managers are often concerned that news of the investigation will unsettle the middle managers and shop-floor workers who may fear their jobs are at stake.

"Initially, in most cases there is suspicion," comments Hew Dalrymple, a consultant in the turnround unit of accountants KPMG Peat Marwick McLintock. "The management's sense of grievance is often fanned by the fact that even though its bankers have called the accountants in it is the company which foots the bill.

"They face extra fees at a time when they are strapped for cash anyway," says Dalrymple. "But if the accountants are any good the managers realise that they can help them."

A common trigger for the bank to call in the accountants occurs when a company reaches its borrowing or overdraft limit and is forced to go back to the bank for more. "The company may have missed a profits forecast or be providing what the bank regards as unreliable or inadequate information," says Mark Batten. "The management may have decided to take the company off in a new direction and the bank becomes nervous."

So what do the accountants do when they come in? "We go in for a day to answer the question: 'Can anything be done to save this company?'," says Dalrymple. "If the answer is 'Yes, probably,' then we go ahead." "We start with a reasonably lengthy discussion with the management about their business," says Bill Roberts. "We might have seen management accounts but we would not at this stage have done any research of our own."

If the company can be saved, the accountants will move on to a detailed study of the financial numbers. "We would review the business's current financial position, its prospects and projections," says Mark Batten. "We would look at the commercial assumptions and at what could go wrong. We would also review whatever proposals the management had to turn the situation round."

"The bank wants to know if the management's figures are factually accurate and whether, in our opinion, they are achievable," comments Dalrymple. "It wants to establish the business's immediate cash position and its future needs for new money."

Once the accountants have the basic information they would discuss the implications of their findings for the business and attempt to agree with the management a plan to resolve its difficulties. "We like to get agreement from the directors on the facts, or raise areas of disagreement and to test out our conclusions with them," says Bill Roberts.

Speed is important to a company facing cash-flow problems and the accountants would expect to complete their work – depending on the size of the company, the efficiency of its information systems and the complexity of the problems – within one to two weeks. Their report would then normally go both to the bank and to the management.

One recent assignment carried out by Bill Roberts at a company with turnover of £15m-£18m began with five to six days of fieldwork to dig out the financial information and a total of 2¼ weeks for completion of the report. If the bank agrees to continue to back the business after reading the report, the accountants may continue to monitor the company's progress – by visits or by reviewing its monthly management accounts – for a further three to six months.

The cost of this process will depend on the amount of bank finance at stake, the size of the company and the complexity of its problems. If management co-operates and the financial information systems are in reasonable order, costs will be reduced. A £4m turnover company recently faced a bill of £10,000-£15,000 for a turnround review, says Dalrymple.

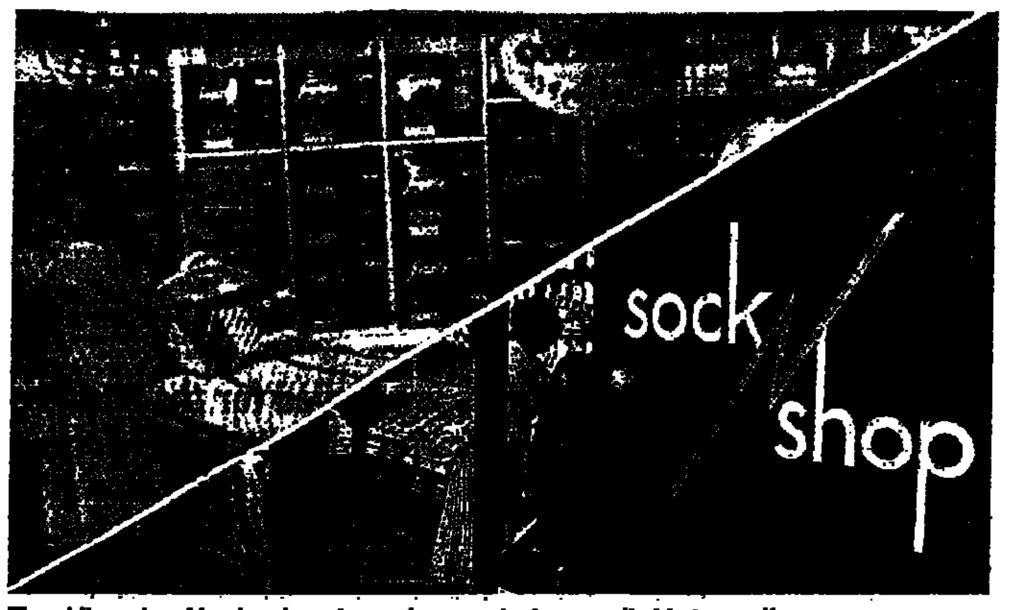
A team of two to three, often comprising management consultants as well as accountants, should be enough to investigate the affairs of a company with turnover of £10m-£15m but larger companies might involve a team of five to 15 people.

The accountants are keen to point out that if the company under review can be saved the costs may well be recouped by improvements in profitability or the discovery of opportunities to save on tax, for example.

In spite of the rapid leap in the number of business failures the greater willingness of the banks to call in turnround teams has cut the number of receiverships and liquidations, the accountants say.

"In the past we would be able to save 40 per cent of the companies we were called in to help but that figure is now moving to 60 per cent because people realise the merits of getting us in earlier," comments Hew Dalrymple.

Previous articles in this series appeared on November 21, 30, December 4, 14, 18, 31 and January 11.



The philosophy of lenders has changed: accountants are called in to see if a rescue can be effected. In the cases of Colorell and Sock Shop this failed

Seven in ten venture capitalists prefer manufacturing

By Charles Batchelor

Manufacturing emerges as the most popular sector for the second time running in a survey* this month of the investment preferences of British venture capitalists.

Nearly 72 per cent of venture capitalists surveyed chose manufacturing as one of their most favoured investment options, an even larger number than the 67 per cent in June 1990, according to Levy Gee, a firm of accountants and business advisers. Within manufacturing, engineering was ranked as the most favoured option.

The second most highly rated business sector was services, appealing to 58 per cent of venture capitalists against 54 per cent previously. Distribution, wholesale and retailing businesses were again ranked joint third but while distribution and wholesale investments declined in popularity retail investments won ground.

The increased attractiveness of manufacturing, services and retailing may reflect a counter-cyclical approach to investments, says Graham Woolfman, author of the survey.

Engineering increased its lead as the most favoured sector within manufacturing (see table) appealing to 53 per cent of venture capital funds against 47 per cent last time.

Venture Capitalists' Preferred Industries

	Jan 91	June 90
Engineering	1	1
Communictns	2	2
Health Care	3	3
Chemical	4	5
Leisure	5	6
Electronics	6	4
Pubg & Edcn	7	8
Other Services	8	7
Comp Services	9	9
Comp Software	10	10
Hi-Tech	11	11
Bio-Tech	12	14
Finl Services	13	13
Comp Hardware	14	12
Advg & Mktg	15	15
Entertainment	16	19
Hotels & Rests	17	17
Pty & Constn	18	16
Film Industry	19	18

In geographical terms the Midlands replaced London and the south east as the preferred region for investment. Internationally, continental Europe won ground appealing to 33 per cent of investors against 30 per cent previously. It was nevertheless surprising that only one-third of UK funds place a high priority on continental investments, the survey noted.

Development capital remained the most favoured investment stage followed by management buy-ins and buy-outs. Despite suggestions that problems in the buy-out sector would prompt a move to earlier stage investments, there was no evidence of this; start-ups ranked an unchanged sixth and seed-corn investments eighth in popularity.

The findings reflect the views of 163 venture capitalists compared with 158 in the first survey. Totals exceed 100 per cent because respondents were allowed to list more than one "top choice".

**Contact Levy Gee, 100 Chalk Farm Road, London NW1 8EH. Tel 071-267 4477.*

Bringing the law to bear

Charles Batchelor gives the CBI's views on late payers

Late settlement of debts has become such a serious issue for small and medium-sized businesses that the Confederation of British Industry (CBI) is to reconsider its opposition to the introduction of legal remedies.

Nearly one in five of the managers questioned in a survey* conducted for the CBI by insolvency specialists Cork Gully said that late debt payments were threatening the survival of their business. This compares with just one in ten when the CBI last surveyed its smaller firm members in 1986.

Eighty per cent of those polled thought their debts would be settled more quickly if there were a statutory right to charge interest on overdue payments.

However, a separate survey† carried out by accountants Pannell Kerr Forster concluded that many firms could improve their payments position if they did more to encourage the prompt settlement of bills.

A number of small business lobby groups has pressed for tougher legal remedies for businesses hit by slow payments – including the right to interest on overdue payments – but the CBI has up to now been opposed. "We have always taken the view that a right to levy interest would create more problems than it solved but we will look at the options again," says Tom O'Connor, chairman of the CBI Smaller Firms Council.

Smaller businesses suffer because they must finance the shortfall in cash-flow; managers must spend time dealing with the problem; and businesses cannot plan ahead. They also incur costs in employing credit-control staff and pursuing late payers.

The measures adopted by companies to pursue late payers are the sending of regular reminders (by 88 per cent of businesses polled); refusing to take new orders (61 per cent); employing a credit controller (49 per cent); instructing a solicitor to threaten legal action (46 per cent); using a debt-collection agency (24 per cent) and using a factoring company (2 per cent).

The CBI survey found that many companies were reluctant to take a strong line on overdue debts because they did not want to alienate customers. This reluctance to take a stand over being paid on time is highlighted by the Pannell Kerr Forster survey. This found that three out of five companies did nothing to ensure customers payed on time.

**Late Payment of Trade Debts. CBI, Centre Point, 103 New Oxford Street, London WC1 1DU. Tel 071 379 7400. 16 pages. £10 to non-members.*
†Contact Pannell Kerr Forster, New Garden House, 78 Hatton Garden, London EC4.

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Further details are available from Peter Powell, The Joint Administrative Receiver or Gary Sturgess, Stoy Hayward, Foxhall Lodge, Gregory Boulevard, Nottingham NG7 6LH Tel: 0602 626578. Fax: 0602 691043.

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Continued on Page 21

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Further information may be obtained from the Joint Administrative Receivers:-

Myles Halley and John Wheatley.

KPMG Peat Marwick Corporate Recovery
Peat House, Lansdown Road, Cheltenham, Gloucestershire GL50 2JA
Tel: 0242 222020 Fax: 0242 221970

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Contact: PRC Densham FCA, Joint Receiver, Valhalla Homes (UK) Limited, Price Waterhouse, Clifton Heights, Clifton, Bristol BS8 1EB. Tel: (0272) 293701. Fax: (0272) 290519.

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Write to Box H7855, Financial Times, One Southwark Bridge, London SE1 9HL.

هكذا من الأصل

Closing in on open systems

Organisations representing hundreds of corporate and government computer users worldwide will meet in Dallas, Texas, next Monday to formulate plans to encourage computer manufacturers to speed up the introduction of "open systems" technology.

Open systems, based on industry-wide standards, are designed to make it simple for computer products from different manufacturers to work together and to share the same software. Computer manufacturers, however, have been slow to react to demands from their customers for open products because of the higher profit margins implicit in proprietary computer designs.

The Dallas meeting, on the eve of a major US open systems exhibition, is expected to provide an unprecedented display of user power. The delegates plan to explore ways of working together to identify common needs and methods of persuading computer suppliers to satisfy them.

The combined information technology budgets of the organisations represented at the meeting has been estimated at more than $100bn a year. Sponsored by the international open systems organisation X/Open, based in the UK, the Dallas meeting, described as a round table with no official chairman, will be led by Walter De Backer, director of informatics at the European Commission and chairman of the X/Open user council.

Groups taking part in the meeting will include the Corporation for Open Systems and the User Alliance for Open Systems in the US, the Sigma User Association from Japan and the European Telco Information Services organisation.

The increasing impatience of computer users with manufacturers' tardiness in moving to open systems is a new phenomenon in an industry noted for being controlled by suppliers. It has resulted in a profusion of user organisations. The hope is that the Dallas meeting will result in the various organisations collaborating to present a co-ordinated approach and a common agenda for change.

Alan Cane

James Buxton tells why Scotland is feeling left out of the British telecommunications review

A call that nobody picks up

When Peter Lilley, the Trade and Industry Secretary, published his consultative paper on telecommunications two months ago, the main comment among followers of the subject in Scotland was: "This seems to be written exclusively for people in the south-east of England."

The policy document* proposes radical changes in British telecommunications aimed at promoting greater choice at competitive prices. The government would end the duopoly of British Telecom and Mercury and open up local, long distance and international telecommunications to new competitors within a regulated framework.

Thus organisations like British Rail and British Gas could use the wayleaves afforded by their railway lines and pipes to provide long-distance telecommunications. Cable TV operators would be allowed to provide local telecommunications services, which for 10 years BT would be excluded from doing. New competitors such as satellite operators would be allowed to operate international links.

The Scottish Development Agency, the official body which works for economic development in Scotland outside the Highlands, endorses the government's aim of promoting competition and encouraging a multiplicity of telecommunications suppliers. But in its submission to the DTI it points out that the green paper does not address the problems of areas like Scotland which are geographically remote, have a small population (5m) and many areas of low population density. The agency raises issues that apply to other outlying and rural parts of Britain.

"There is no recognition in the green paper that geography has limited the development of competition in telecommunications," says Iwan Williams, head of communications at the SDA. Referring to the duopoly of BT and Mercury, he says: "Duopoly? What duopoly? – so far as Scotland's concerned."

The SDA points out that Mercury only began operating in Scotland in 1987, four years after the duopoly was created, and only covers part of the central belt and an area up the east coast to Aberdeen. There are only 19,000 lines in Scotland with access to Mercury's network, compared with BT's 2m lines. "Less than 1 per cent of Scotland's exchange lines [and a much smaller percentage of customers] have thus benefited directly from competition in fixed link networks," the SDA says.

(Mercury says there will be a "significant expansion of our operations in the Scotland region in a year or two's time".)

Although BT faces much less competition in Scotland than in some other areas of Britain the SDA says Scottish businesses were reasonably satisfied with it. But there is dissatisfaction about plans for the spread of BT's Integrated Services Digital Network (ISDN), which will provide high-speed data transmission services. ISDN can only be introduced where exchanges have been digitalised and naturally the priority for ISDN is in the urban areas, beginning with Edinburgh.

An important exception is in the Highlands and Islands. Here the Highlands and Islands Development Board has persuaded BT to introduce ISDN to the the principal exchanges (initially 43 of them, now increased to 65) several years earlier than would be commercially justified and long before many other parts of rural Britain. To do this the HIDB is contributing £5m to the £16m cost of BT's investment programme to be completed by 1992.

But this initiative does not cover the rural areas outside the Highlands: Speyside in Grampian, for example, contains scattered whisky distilleries which could benefit from improved data transmission. There are remote textile factories in the Borders.

As for cellular radio, almost all the Highlands and Islands area west of the A9 Perth to Inverness road are uncovered by Cellnet and Vodafone, as are parts of the Borders. Though Cellnet had reached 97 per cent of the population of Britain by June 1990 it only covered 82 per cent of the population of Scotland. Cable TV has been slow to develop in Scotland: there are only two currently operating franchises (Glasgow and Aberdeen) and 40 per cent of Scottish households live in areas where no company has even sought a franchise.

A study commissioned by the SDA showed that on current plans operators of personal communication networks (PCNs), the next generation of mobile communications which is scheduled to begin operating in 1992, might not reach Scottish towns such as Inverness and Stirling with populations of 50,000 or more during this century.

"What we're saying is that deregulation does not necessarily lead to the creation of new services," Williams says. "Unfettered competition would result in a patchy level of service."

The Highlands and Islands telecommunications initiative can be viewed as a tacit official admission that market forces alone do not necessarily bring the latest telecommunications services to peripheral areas.

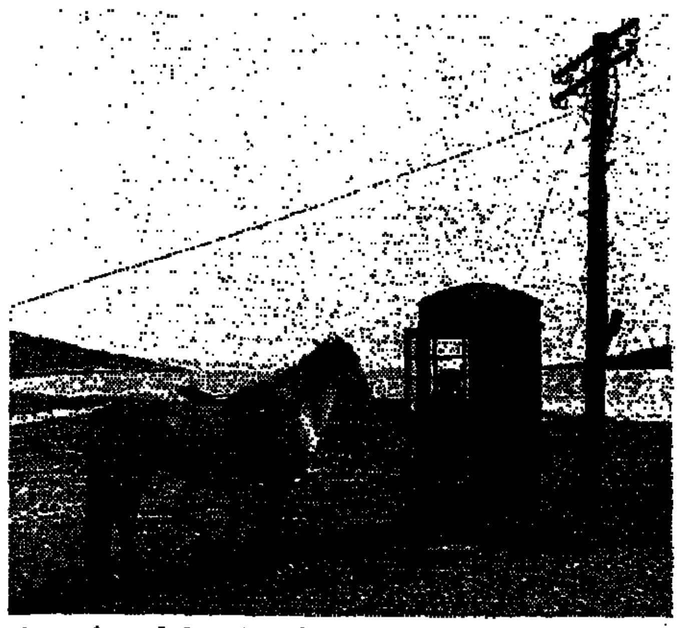
The agency believes that to help ensure that new services are created and that telecommunications operators do not simply "cherry-pick" the more lucrative sectors and regions of the Scottish market, the government must frame regulations and licences with "greater attention than hitherto paid to issues of economic development." Oftel (the Office of Telecommunications) should be ordered to take economic development issues into account when issuing licences.

Thus, the agency says, companies licensed to provide local telecommunications services should have "a requirement to make their services available to a stated percentage of potential users within a given timeframe". As for trunk network services, providers should be obliged to operate on a "national rather than a geographically selective basis" to avoid cherry-picking. "National," the SDA adds, "should mean British rather than English."

To ensure a reasonable geographical spread of services such as ISDN the agency recommends Lilley to widen BT's universal service obligations which are currently confined to voice telephony. The obligations should be progressively extended to cover advanced services, especially ISDN.

Both the SDA and the HIDB endorse the government's view that the tariff control arrangements for BT should be maintained, with its element of cross-subsidy between urban and rural areas. An HIDB official says: "Competition hardly exists in the Highlands" (where so far the only presence of Mercury is a handful of payphones in Inverness). "If there were differentiation in tariffs between different geographical areas it would be very bad news for the Highlands."

**Competition and Choice: Telecommunications Policy for the 1990s.*



No word yet of alternative phone services in rural Scotland

One of the most memorable results of liberalisation in the Northern Ireland telecommunications industry came last November, when Richard Needham, the Northern Ireland under-secretary, used the phone in his car to make a call. As his controversial comments about the incumbent prime minister travelled across the airwaves they were picked up by the security forces – and appeared in the following day's newspapers.

Such cellular phone networks are one of the few benefits Northern Ireland has seen from the UK's liberalisation policy. But while Scotland complains vociferously about the paucity of its communications services, Northern Ireland has turned to Brussels, rather than London, for help.

Designated a disadvantaged area, the province qualified for help in setting up phone services and has been able to put in an £108m optical fibre backbone network linking 44 areas.

John Harris, senior director of information technology at the Industrial Development Board of Northern Ireland, points to several large companies, such as British Airways and Du Pont, which have been able to exploit the sophisticated phone services.

Perhaps the first real competition to British Telecom will come from Ulster Cablevision, which has been licensed to operate a cable television network in Belfast. That is, provided the duopoly review gives the go-ahead for cable companies to offer phone services.

Della Bradshaw

Apple performs the classics

By Louise Kehoe

TECHNICALLY SPEAKING

Apple Computer's Macintosh "Classic" is living up to its name. Sales of the new low-cost version of the Macintosh, introduced last October, are reminiscent of the personal computer industry pioneer's past glories.

"We have shipped more Classics in the first quarter than we did Macintosh Plus's in its best selling year," John Sculley, Apple chairman and chief executive, boasts. "The Classic is going to be as big as the Apple IIE in its largest selling year and may equal unit sales of all Apple IIs sold to date."

Such comparisons are telling. Although the Apple IIE and the Macintosh Plus were Apple's best sellers, they were not the products that won Apple acclaim. Rather, they were re-engineered versions of earlier products upon which Apple built its reputation.

Similarly, the Macintosh Classic draws upon earlier designs, in particular the Macintosh SE. It is a re-packaged version of the Macintosh, priced to compete in today's PC market – and it is outselling its predecessor.

While Apple has long claimed to be the "innovator" of the personal computer industry, the company has achieved its biggest successes by building better mousetraps, albeit ones that take advantage of earlier Apple inventions.

This lesson is not lost upon Sculley, who now spends about 70 per cent of his time on product development management at Apple and has adopted the new title of chief technical officer. Under Sculley's direction, Apple actively sought feedback from its customers as it developed the Classic. Significant changes were made in the product just months before introduction, based upon customer input, he says.

The Portable Macintosh is Apple's latest example of the triumph of innovative technology over good sense. Apple spent more than two years trying to create an "elegant" technology solution and ended up with an ugly duckling, a machine that was too bulky and expensive to be practical.

Now, Apple is preparing to launch an improved version of the Portable, one that will more closely reflect the demands of the marketplace. This product may not be heralded as a technological breakthrough, but it could be a commercial success.

Looking forward, Apple must, however, combine the "vision" of which it has long boasted with its new-found pragmatism. Apple's next several products, already in development, will be evolutionary rather than revolutionary products. They are expected to include, this year, a high-powered computer based upon Reduced Instruction Set Computer (Risc) architecture – a computer workstation with some of the user-friendly appeal of a Macintosh.

Apple has also built prototypes of two generations of notebook-sized computers, and is working on a third. These products, if they ever reach the market, will also be "catch-ups" designed to compete with a plethora of miniaturised IBM-compatible notebook computers from Japan.

It will be about two years, Sculley reckons, before Apple will be ready to focus once again upon "defining new opportunities" and creating truly innovative products as it did in the mid-1980s.

In the meantime, Apple is ironically looking to Japan's electronics giants – long denigrated as "copiers" rather than innovators – for new inspiration and collaboration.

As the model US entrepreneurial company, Apple has been burdened by several myths. Among the most misleading has been the proposition – for too long accepted within the company – that innovation has been the sole key to Apple's success. Dispelling this fantasy could help Apple to remain a leader in the computer market of the 1990s.

Continued on Page 21

Never single spies but in battalions

William Packer on the current Saatchi Gallery installation

That the notorious reclusiveness of the Saatchi brothers should serve nothing so much as to fuel general interest in their affairs is a nice paradox. Such curiosity naturally extends to the huge collection of international contemporary art that Charles Saatchi has accumulated these past dozen years. Whatever the present health and future prospects of the fraternal company might be, the collection continues to grow apace, and in a way that seems to give the lie to the *canard* that it was Charles's first wife, Doris, who was the determining influence.

Clearly changes have been made. The Saatchi manner of collecting, never single spies but in battalions, was always controversial, with always the possibility implicit of movement the other way. Lately certain major holdings in the collection have been sold, among them those in Kiefer, Scully and Schnabel, to the manifest chagrin of some, and a not untimely revision in the reputation of others.

But much else has been bought in the meantime. Beautifully installed, as ever, in the vast, clear spaces of Saatchi's own galleries near Swiss Cottage, the latest tranche from the collection gives us the work of two sculptors, Richard Wilson and Richard Artschwager, and a photographer of peculiar ambiguity, Cindy Sherman (98a Boundary Road, NW8; until July – open weekends or by appointment). The emphasis, we are told, is now much changed, yet here is the work of two Americans and an Englishman, much of it recent and all of it as uncompromising in its modernism as ever. Whose is the counsel to which Charles now defers? It might even be his own.

Of this present work, it is the more straight-forward, the sculpture of Richard Artschwager, that is the less interesting. In the bland images he has derived from furniture, boxes inlaid with Formica or empty picture frames, he gives us a decorative minimalism that is merely academic. The justification, that they make ironical reference to the cheap mass-produced furniture of the television age, is unconvincing – as well argue the profundity of wall-to-wall carpet. His two earlier pieces here, a lectern and a confessional box, both of them markedly more literal in their references, are the more intriguing, for their deeper and more ambiguous cultural resonances.

The Englishman, Richard Wilson, is also to a degree a victim of academic orthodoxy, that peculiarly tedious academicism of the outsize installation and surreal material disruption of immediate environment or familiar object. To pierce the physical wall that separates one gallery from the next by setting a greenhouse into and through it, tilted askew some feet from the floor, takes some considerable effort and in is well enough done. So he shows us the innards of the construction of the wall: tests our received perceptions and expections. So what.

But where Wilson does succeed, and succeed spectacularly, is in going even further in his tableau-making, taking the art of the installation to a bizarre extreme, if art it is. He has shown his "20: 50" before, but never to quite such effect as here, where he has apparently filled the long side gallery waist high with sump oil. A narrow, path, growing ever narrower, penetrates this sinister black lake, and to move along it to its end is to experience a most curious *frisson*, an anxious mixture of actual fear of being swamped by the evil liquid, of claustrophobia at its closing presence, and suddenly of vertigo, as the still surface drops away in the clear reflection of the ceiling, far below a now precarious, cantilevered balcony. Scene-setting or side-show, perhaps, but worth the experience.

But it is Cindy Sherman whose work now commands the galleries, both literally and imaginatively. She too works in an area of expression that is ambiguous and debateable, as close to theatre or film as to the plastic arts. The statement is achieved through the medium of the still photograph, technically meticulous and often very beautiful, but yet its sense is always of a performance arrested, the significant moment frozen, the story unspoken, unresolved, hanging in the air.

At the centre of every tableau is Miss Sherman herself, at once evidently self-obsessed yet oddly impersonal, even anonymous. She herself is beautiful, but with a beauty of clear and regular features rather than obvious glamour, the attribute of actress or model who can assume whatever character required, her image, endlessly repeated, freed of any particular identity. Yet a certain self-consciousness remains, a quality of the eyes' engagement with the camera, perhaps, or the wry, self-deprecatory wit that informs even the most elaborate of her *mises-en-scène*, the art-historical parodies especially, with their false bodies and in-jokes.

A long sequence of images is taken from the *Untitled Film Stills* series of the late 1970s, now collected in a book recently published by Jonathan Cape (£25). In black-and-white, it both prefigures the much larger and more technically ambitious later work in colour, in its narrative inferences, and yet stands quite independent in having so much more direct a source in the narrative of the cinema. The feeling throughout is of the old second feature, the calm, disquieted, pregnant moment before that of truth or terror. Always alone, the girl reaches for the book on the highest shelf, pauses to light her cigarette, weeps over her drink, looks up from her letter, half turns away from the stove, fiddles with her suspender, waits for her train on the deserted platform. Miss Sherman's work may have grown more ambiguous since, the implicit narrative more obscure, yet all was there, it seems, from the beginning.

'Untitled No 216' by Cindy Sherman: a photographer of peculiar ambiguity

More Henze

BARBICAN HALL

The BBC's rather splendid Henze festival at the Barbican – for once, the "festival" label is perfectly in order – has been the responsibility of Clive Bennett. He deserves serious congratulation (though undoubtedly the composer himself had pressing ideas about what to include). Not only has Hans Werner Henze been prolific beyond almost any contemporary, but the developing range of his music, expressive and inventive, must challenge any attempt to represent it in a few concerts. The BBC programmes are capturing it remarkably well, with the bonus of some striking pieces unknown even to Henze enthusiasts of long standing.

In Saturday's concert by the London Sinfonietta and the BBC Singers, conducted by Ingo Metzmacher, Henze's Choral Fantasy (from 1964) was a lovely discovery, one that other choruses with secure pitch should hurry to make. It sets Ingeborg Bachmann's five "Songs from an Island" to lucid and, indeed, luminous effect; Henze finds exactly seductive and original means of rendering the escapist idyll, and also the darkling sense of some distant political menace. In principle, the prescribed accompaniment – solo trombone, a pair of cellos with double bass, portative organ and a lot of reticent, almost subliminal percussion – seems bizarre, but in performance it sounds utterly natural and telling.

The Five Neapolitan Songs are far more familiar, thanks to Fischer-Dieskau. Here the young Swedish baritone Urban Malmberg delivered them intelligently, with a timbre of pungent character, despite some trepidatious moments with pitch. The rest of the concert, far too much of it, went to the "Paraphrases on Dostoyevsky", which is Henze's latest attempt to rescue his 1952 ballet after *The Idiot* (he hates wasting anything).

That came toward the end of his serialist phase, and at the outset of his music-theatre adventures. The result was a score consisting mostly of fragmentary numbers (many of them tantalisingly vivid), intercut and overlapped by long monologues for "Prince Myshkin" – originally from the novel and from the Bible, but later replaced by new Bachmann soliloquies. In Michael Hulse's fine translation, these were delivered by Jonathan Moore in actorish, whingeing, *déclassé* tones: Myshkin was nowhere to be heard. I doubt anyhow that the piece is viable in this form, but at least the glinting, half-developed musical ideas were fascinating to hear.

I missed the foyer performances of *El Cimarrón*, Henze's Cuban slave-history vaudeville, on Saturday and Sunday, but Sunday evening brought a stirring revival of his 1968 "popular and military oratorio", *The Raft of the Medusa* – after the famous Géricault canvas, with earnest historical details of the ghastly episode set in a visionary frame. When the French frigate *Medusa*, sent to challenge the British in Senegal in 1816, struck a reef, its officers took the lifeboats and left one wretched raft (and meagre supplies) to the crew of some 150 men and boys. Adrift for two weeks, most of them died.

Henze's narrator (here the excellent Omar Ebrahim) is "Charon", for throughout the action chorus-members cross over from "the Living" on the right, with their distinct wind-band, to the string-supported realm of "the Dead" on the left, where the soprano "La Mort" presides (Beverly Morgan, committed but shrill at the top). Those realms are equally Hell and Heaven, the living death of the short-term survivors and the seductive relief of annihilation. As their dramatic spokesman, the mulatto Jean-Charles (who waves the red signal-flag in Géricault's painting), David Wilson-Johnson displayed his reliable penetration and flair. So did Simon Joly, conducting at short notice when Ulf Schirmer defected.

After the intensely imagined agonies, and a hugely vital "Fugue of the Survivors", Henze appends a truculent late-'60s coda. Over the "Ho – Ho – Ho-chi-minh!" rhythm (which, be it noted, is also the stern motif of Mahler's Sixth), Charon reports that the survivors "returned to the world again, eager to overthrow it". In the circumstances, even if they didn't really do it, that would seem an eminently reasonable response; but it drew a knee-jerk ideological boo from somebody at the end. The rest of us were moved.

David Murray

Hermann Prey

QUEEN ELIZABETH HALL

The first signs of recession in the music industry have begun to make themselves felt. The recent demise of the artists' agency Ibbs and Tillett came at an awkward moment. The company was in the midst of promoting its own vocal recital series at the Queen Elizabeth Hall, though arrangements happily seem to have been made to salvage the remaining dates from the wreckage.

On Friday it was the turn of Hermann Prey, who returned to London to give an all-Schubert recital. The programme concentrated on the composer's settings of a single poet, Goethe, which includes some of Schubert's most ambitious and demanding pieces and should have ensured an uplifting evening, if the baritone had been on anything like good form. As it was, the singer fought a losing battle.

It is always difficult to write about a vocal recitalist who is caught on an off-night and Prey, so often the sturdy and reliable performer in the past, is no exception. To watch him counting out the beats in the air in an attempt to keep the momentum going was off-putting, even before one came to consider the tiredness that was evident in the singing.

In the circumstances it would be unkind to dwell on the first half. Suffice to say that intonation was all over the place and even those vocal lines that set out with some sense of purpose were apt to sag half way through, as though the effort to sustain them to the end was just too great. Only with "Erlkönig" did the Prey we know of old succeed in summoning his energies to give a performance of real tension and drama.

Through the second half sheer professionalism achieved more. Though he has never been one of the original thinkers of Lieder interpretation, Prey does have a sure and idiomatic way with the texts, which was keenly felt in the Sarastro-like dignity of "Grenzen der Menschheit". The rapturous "Ganymed", beautifully accompanied by Helmut Deutsch, also worked hard to find the right hushed tones of tenderness. A timely reminder of happier evenings.

Richard Fairman

Mozart festival

WIGMORE HALL

The Wigmore Hall will be closed for refurbishment by the time the Mozart bicentenary celebrations reach their climax in November, so the hall may be excused for plunging into its programme of events early. The week-long "Mozart Bicentenary Festival", devised by György Pauk, has already reached its conclusion at the week-end, although there is naturally more Mozart still to come.

In the main the festival concentrated on instrumental music, but the last programme on Saturday was graced by a selection of vocal numbers, for which the musicians were joined by Arleen Auger. This soprano is one of the most delightful Mozart singers of the day, though it took her some time to get into her stride on this occasion, with breathiness in the voice through the first few pieces and an insufficient sense of character.

Even in "Un moto di gioia", which Mozart wrote as a substitute aria for *Le nozze di Figaro*, the singing was on the pale side. A born Susanna would get her teeth into that piece. But in "Deh vieni", the later aria for Susanna that we do always hear, the voice cleared and brought with it a limpidity of phrasing that we would count ourselves lucky to get in the theatre. "Non temer" from *Idomeneo*, imposingly sung, then added the missing sense of drama.

In this and her aria from *Il rè pastore* Auger was joined by Pauk, who played the solo violin parts, while Ralf Gothóni filled in the rest of the orchestra at the piano – an attractive proposition that did not quite come off in the *Idomeneo* aria, where the violinist unwittingly entered into a competition with the singer and won. Solo instruments carry very easily in this hall. Nor was the edginess of violin tone in the G Major Sonata, K.301, ideal.

Altogether the best of the evening followed after the interval when Pauk, as second viola, joined the Takács Quartet for a heartwarming performance of the String Quintet in C, K.515. There was no questioning the outstanding quality here: the range of colour, a full burnished glow in the slow movement, a bright sparkle for the finale, enriched understanding at every turn.

One looks forward to other Mozart evenings at the hall this year keenly.

Richard Fairman

Dmitry Bashkirov

QUEEN ELIZABETH HALL

Bashkirov is a leading Russian pianist, not quite 60, who after years of international concert-giving was denied permission to play outside his native country for most of the 1980s. He is also an important Moscow piano pedagogue, and at least two of his pupils, Dmitry Alexeyev and Nikolay Demidenko, have gained their own followings in this country. The recital he gave on Sunday evening soon transformed initial curiosity into genuine excitement; for here was revealed a player of exceptional stature, a *highly individual artist with* a sound all his own and a musical mind of considerable imaginative vigour.

The first half was devoted to Schubert (the C minor Impromptu, D899 no. 1) and then Liszt's piano transcriptions of ten Schubert songs. In the first one immediately noted a needle-point precision and forwardness of articulation that one later came to recognise as a Bashkirov stylistic fingerprint. He attacks cleanly, with exhilaratingly springy rhythm and impetuous urgency in reaching for the peak of a melodic curve; without rushing the music, he keeps it ceaselessly moving forward.

In the song-transcriptions, each one a fascinating development of Schubertian vocal lyricism in a new dimension, Bashkirov's searching musicality brought rich rewards. Unlike Shura Cherkassky, another pianist who favours these small but uniquely gratifying samples of Schubert-Liszt, he doesn't play suave, kittenish tricks with textures; but the disciplined urgency of Bashkirov's art distilled from each number an unfolding drama in miniature. In "Der Doppelgänger", the "amen coda" which Liszt added to the end of the song was given an almost Mussorgsky-like solemnity; here and elsewhere, the odd jumbled climax or rushed fence was a small price to pay for the gripping *impact of the complete song-sequence.*

Unlike so many of today's younger virtuosos, this pianist also possesses a sense of musical humour: his four Debussy Preludes from Book 1, "Minstrels" in particular, and his "Isle joyeuse" (expertly paced) had the light, capriciously teasing tone that separates the authoritative Debussy interpreter from the merely conscientious one. All the distinctive qualities previously displayed – impulsive attack, wit, and an array of sonorities that carry a peculiarly bright, dry sparkle – were gathered together in the recital finale, a brilliant and captivating account of the Prokofiev Fourth Sonata. I hope Bashkirov returns here soon, and often.

Max Loppert

Belle Reprieve

DRILL HALL, W1

The last time I bumped into *A Streetcar Named Desire* was in a production staged to raise money for an Aids charity. It struck me then that they were crazy to play it straight when Blanche was just waiting for a drag queen to have his wicked way with her.

The point is not as flippant as it might seem, since Tennessee Williams' evocation of a tragic belle with a trunkful full of airs and graces touches a chord of desperate decadence that always vibrates in a background of genuinely gay transvestism, while it takes no great stretch of imagination to see the brutishness of her brother-in-law Stanley as incurable homophobia.

Enter Bette Bourne, flamboyant founder of the cabaret ensemble Bloolips, part sweet thing, part pantomime dame. Enter also Split Britches, a New York-based lesbian company which has made its second home in the Drill Hall. The promise, regrettably, outstrips the realisation.

Firstly, Tennessee Williams barely gets a look-in. His themes fight to the surface now and again, only to be *drowned out by an overplus of* knavery which is clearly geared to a particular camp following. Yes, but which camp? The peculiar feeling began to emerge during the evening of sitting at the intersection of two distinct audiences, one of which adored Split Britches and the other of which would die for Bette Bourne. That split is encouraged by a musical which sets a lesbian relationship (Stella and Stanley) against a gay one (Blanche and Mitch).

A rather polite exercise in turn-taking gives each pair their share of the spotlight: Bette in a bath foam of tutu netting being serenaded by an angel to a cheeky little ditty, "Supernatural Being"; Stella (the glamorous Lois Weaver) being romanced by Peggy Shaw's Stanley in the show's most openly erotic number, "Sweet Little Angel".

Two very different traditions *rub along diversingly enough,* beautifully accompanied in everything from Gershwin to Muddy Waters by the piano-playing wizard Laka Daisical, but the sparks only begin to fly near the end when the impending rape of Blanche by Stanley allows Tennessee Williams to crash the two sides together.

For a rare moment of seriousness, the drag queen becomes the pathetically raddled victim of a lesbian's sexual bullying. It is a shocking and moving reversal, which is all the more poignant for being immediately laughed away in an extended joke about genre.

Claire Armitstead

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Muziektheater 20.00 Oliver Knussen conducts a double-bill of Schöenberg's Die gluckliche Hand and Morton Feldman's one-act opera Neither, with libretto by Samuel Beckett. Staging by Pierre Audi, with soprano Reri Grist (255455)
Concertgebouw 20.15 All-Shostakovich programme played by Nieuw Sinfonietta Amsterdam conducted by Lev Markiz (718345)

ANTWERP

De Vlaamse Opera 20.00 Robert Carsen's new production of Manon Lescaut conducted by Silvio Varviso, with Miriam Gauci in the title role. Also Thur and Sat (233 6685)

BERLIN

MUSIC
Staatsoper unter den Linden 19.00 Il trovatore (2004 762)
Deutsche Oper 19.30 Eine *Volkssage, a Bournonville ballet* with music by Niels Gade, choreographed by Peter Schaufuss (3410 249)
Philharmonie Kammermusiksaal 20.00 Daniel Barenboim is conductor and soloist in all-Mozart programme with Berlin Philharmonic Orchestra, repeated tomorrow, Thurs and Fri (2614 383)
THEATRE
Berliner Ensemble 19.00 Baal, Brecht's play directed by Reiner Bredemeyer (2827 712)
Deutsches Theater 19.30 Goethe's Egmont (2871 225)
Maxim Gorki Theater 19.30 One Flew Over The Cuckoo's Nest by Dale Wasserman (2082 748)

BRUSSELS

Palais des Beaux Arts 20.00 Guarneri Quartet plays Mozart string quartets. Friday and Sunday: Belgian National Orchestra conducted by Ronald Zollman play Webern, Sibelius and Tchaikovsky (507 8200)
Monnaie 20.00 The Hard Nut, a new interpretation of Tchaikovsky's Nutcracker by Mark Morris. Also tomorrow, Fri and Sun (219 6341)

CHICAGO

Orchestra Hall 19.30 Catherine Comet conducts Chicago Symphony Orchestra in programme including Sowerby, Ravel, Franck and Kalinnikov's First Symphony (435 6666)
Lyric Opera 19.30 Die Zauberflote, an Everding production conducted by Gustav Kuhn, with cast headed by Karita Mattila, Sumi Jo, Robert Lloyd and Jerry Hadley. Also Sat (332 2244)

FRANKFURT

Alte Oper 20.00 Giuseppe Sinopoli conducts Philharmonia Orchestra in Mahler's Seventh Symphony. Tomorrow: Hermann Prey sings Schubert (1340 400)

HAMBURG

Deutsches Schauspielhaus 20.00 Michael Bogdanov's production of Under Milk Wood (248713)

LEIPZIG

Opernhaus 19.30 First night of Julien Sorel, new ballet choreographed by Yuri Vamos, music by Elgar. Also Sun (7168 273)

LONDON

MUSIC
Covent Garden 20.00 Jeffrey Tate conducts John Cox's new production of Capriccio, with Kiri te Kanawa, Anne Howells and Thomas Allen. Also Sat (240 1066)
Royal Festival Hall 19.30 Academy of St. Martin-in-the-Fields conducted by Neville Marriner play Cherubini, Beethoven and Dvořák (928 8800)
Queen Elizabeth Hall 19.30 Messiah with London Orpheus Orchestra and Choir (928 8800)
Barbican Centre 19.45 Henze Festival: Tristan and Seventh Symphony played by BBC Symphony Orchestra conducted by Alexander Lazarev (638 8891)
THEATRE
This week's shows include Pinter's *The Homecoming* directed by Peter Hall (Comedy), Anouilh's The Rehearsal (Garrick), Ayckbourn's *Absurd Person Singular* (Whitehall), The Wind in the Willows with a cast led by Richard Briers (National), Ian McKellan as Richard III (National) and Brian Cox as King Lear (National). Phone Theatreline: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

MILAN

Teatro all Scala 20.00 Pier Luigi Pizzi's production of Le Comte Ory conducted by Bruno Campanella, with Cecilia Bartoli as Adele. Also tomorrow, Fri and Sun (7200 3744)

MUNICH

Staatsoper 19.00 Yuri Lyubimov's new production of The Love for Three Oranges conducted by Wolfgang Sawallisch. Also Thurs (221316)

NEW YORK

MUSIC
Avery Fisher Hall 20.00 Charles Dutoit conducts New York Philharmonic in Kodaly, Schumann and Dutilleux's Cello Concerto, with Lynn Harrell (874 2424)

New York State Theatre 20.00 New York City Ballet in Balanchine's Allegro Brillante and Vienna Waltzes (870 5570)
Metropolitan Opera 20.00 Boris Godunov with Paul Plishka, Sergei Koptchak and Heinz Zednik. Tomorrow and Sun: Faust (362 6000)
THEATRE
This week's shows include Assassins, musical by Stephen *Sondheim (Playwrights Horizons),* City of Angels, musical about Hollywood in the 1940s (Virginia), and Black and Blue, an evening of jazz, blues and tap-dancing (Minskoff). Ticketron (239 6200) answers inquiries and sells tickets

PARIS

MUSIC
Opera Bastille 20.30 Members of the Opera orchestra play chamber music by Mozart and Prokofiev in the Amphitheatre (4001 1616)
Palais Garnier 19.30 All-Mozart programme with the London Classical Players conducted by Roger Norrington (4742 5371)

THEATRE
Comedié Francaise 20.30 Moliere's Le Medicin malgré lui directed by Dario Fo. Also Sun (4366 4360)
Théâtre des Bouffes du Nord 20.30 Peter Brook's production of The Tempest. Runs till March 2 (4607 3450)

PRAGUE

Smetana Hall 20.00 Petr Vronsky conducts Prague Symphony Orchestra in Mozart and Prokofiev, repeated tomorrow

VIENNA

Staatsoper 19.00 Natalia Troitskaya sings Tosca. Tomorrow: Vaclav Neumann conducts Rusalka, with Gabriela Benackova and Eva Randova (51444 2960)
Volksoper 19.00 La Cage aux Folles (51444 3318)
Musikverein 19.30 Axel Seidelmann conducts Vienna Music Forum in programme of 20th century chamber music. Tomorrow and Fri: Kuchl Quartet with Ilse Wincor play string quartets and quintets by Mozart (505 8190)
Konzerthaus 19.30 Piano recital by Till Fellner. Fri: Sinopoli conducts Mahler's Seventh Symphony with the Philharmonia Orchestra (7124 6860)
Telephone sales of tickets for Staatsoper and Volksoper available worldwide for holders of credit cards by ringing Vienna 5131 513

WASHINGTON

Kennedy Center Concert Hall 19.00 National Symphony Orchestra conducted by Randall Craig Fleischer play Sibelius, Dvorak and Borodin. Thurs, Fri and Sat: Jiri Belohlavek conducts Dvorak and Janacek, with Rudolf Firkusny piano (467 4600)
Kennedy Center Opera House 20.00 American Ballet Theater season runs till Jan 27, with two performances on Sat and Sun (467 1600)

ZURICH

Opernhaus 19.30 Der Zigeunerbaron, also Sun. Tomorrow and Fri: Tosca conducted by Nello Santi (251 0909)
Schauspielhaus 19.30 Ibsen's An Enemy of the People, also Fri. Tomorrow: Le Misanthrope directed by Rudolf Noelte (251 1111)

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A Cap fit for the Gatt

WELCOME signs are now emerging that the European Community is having second thoughts about farm reform. But the process of elaborating new ideas must be radically speeded up if it is to lead to the revival of the stalled Uruguay Round of trade negotiations.

It is already too late for Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, to announce sufficient movement for negotiations to resume when he reports to members today. War in the Gulf could now further distract attention from trade, pushing the round into indefinite abeyance.

This might be a matter of satisfaction for Europe's protected farmers, but it would be a severe setback for the trading system as a whole. The European Commission is one body which cannot claim to have its hands full with the Gulf. Its contribution should be to ensure that momentum is not lost in other urgent international issues such as the Uruguay Round. It must therefore come up with an improved offer on farming designed to revive the talks.

Budgetary worries

The trouble with its new approach to farm subsidies is that it involves long-term reform, dictated much more by internal budgetary worries than by the Gatt. Envisaged is a greater emphasis on targeted income support, combined with the traditional high prices to consumers and an increasing measure of supply control. Though this may not be as thorough-going a reform of the Common Agricultural Policy as some in Brussels have suggested, it would still take many months of wrangling among member states to agree.

Welcome as they are, the new ideas are too embryonic to give the Uruguay Round the quick shove it needs if it is to be revived and completed within the current deadline of March 1. While it dabbles with CAP reform the Commission has been refusing further short-run amendments to its Gatt offer to cut farm subsidies by 30 per cent, beyond those which were already rejected by the US and Cairns group of farm exporting nations at December's Gatt summit.

The fact that the Community has its own financial reasons for looking at long-term reform would, however, add credibility to any fresh offer it makes in the Uruguay Round. Parallel to its longer-term reform discussions, the EC must revise its Gatt offer to cut subsidies by 30 per cent.

By the end of the Brussels ministerial meeting the EC had indicated its willingness to negotiate specific commitments on export subsidies, import barriers and domestic supports. But its offer was verbal, vague and hedged with conditions, such as its unacceptable call for a "non-aggression pact" in farm trade.

Concrete offer

Against the backdrop of the longer-term reform discussions that are now in train, there is no reason why these vague murmurings should not be refined and transformed into a concrete offer. Mr Frans Andriessen, external relations commissioner, is travelling to Latin America and the US next week. To arrive there without anything new would simply rub salt in the wounds remaining after last month's failed Gatt summit. The ill-feeling would be so great that it might be the surest way of consigning the whole four-year effort to oblivion.

At the very least a revised offer should incorporate a formal willingness to extend the reform process into the second half of the decade, possibly by phasing in reform over a 10-year period starting from 1989. The EC should also drop its claim for 1986 to be the base year from which the level of subsidies is calculated.

If that were to happen, the US should respond favourably. Even though this would fall far short of what Washington has been demanding, it would still mark a fundamental reform, way beyond what the EC has offered hitherto.

The Bush administration would then have ample grounds for persuading Congress to agree to a short extension to its negotiating deadline, something that a war in the Gulf would probably make necessary in any case. A useful, and indeed path-breaking, trade round could then still be completed.

Next steps for the BBC

IN its long history, the BBC has been much subject to scrutiny by politically-inspired management consultants. But even by the standards of the genre, the report written by Price Waterhouse and published in summary by the Home Office yesterday is a threadbare piece of work.

Cobbled together in six weeks on the basis of sometimes suspect BBC data, the report has enabled the government to propose a gentle financial squeeze this year to be followed by two years in which the licence fee will be increased in line with inflation, as it has been since 1988. This year, the fee will rise by the retail price index less three percentage points, a pressure relieved by the fact that the point of indexation was September, when the 12-month increase in the RPI was 10.9 per cent, and the point of implementation was April, when inflation will be back in single figures.

Thus in 1994, the BBC will look back on six years during which its income will have remained more or less stable. In the same time, UK broadcasting will have had a revolution. Satellite TV has been born, suffered corporate shake-out and gained access to one in 15 British homes. Independent TV production is established. New national radio franchises have been determined. The Broadcasting Act has increased competitive pressures within the ITV system. And now commercial broadcasters are in their worst advertising recession for a decade. From the BBC's point of view, it is a satisfactory outcome to a decade of Tory turbulence.

The political purpose of yesterday's study was to get the BBC off the government's agenda with minimum back-bench objection until the eve of 1996, when the BBC's governing charter is due to expire.

Provisional schemes

Those who agree that the BBC makes a great contribution to quality broadcasting will not complain of this, but there are reasons why the financial and constitutional arrangements which have served the BBC since the birth of television cannot be expected to see out the century.

The most obvious is that both technology and public taste point to the demand for more television and radio delivered by a wider spectrum of broadcasters. This more diverse, more mature broadcasting industry should be subject to minimal regulation and to no political constraints. In its present form, the BBC is too large and powerful for such a liberal broadcasting environment.

Questionable tax

It is also questionable whether a tax collectable on TV set ownership will remain an acceptable mechanism for funding a broadcaster whose share of the television audience is bound to diminish from almost 50 per cent, unless the BBC goes down market in search of audience and ultimately self-destruction.

On both cultural and financial grounds, therefore, it would be better to seek for the BBC a mixed funding base, whose elements could include sponsorship, some advertising, a form of voluntary public subscription and an Arts Council style grant – itself perhaps funded by a licence fee. The alternative is a smaller licence fee for a smaller BBC paid to deliver the public service programmes the commercial sector cannot provide.

With a broader funding base, it would be possible to envisage a more robustly independent constitution for the BBC and even the stimulus to address the corporation's chronic management problems. Sir John Harvey-Jones, the former chairman of ICI turned TV programme maker, was not far wrong when he said recently that the BBC has twice as many top managers as it needs. Until the corporation has a serious influence over its own income, it will not learn effectively to control expenditure and will lack the incentive to create a structure of decentralised operations and lightly staffed centre.

Having, against its own expectations, done pretty well out of Mrs Thatcher's decade, the BBC should come clean about the need for this managerial reform and couple it with a confident stance in the funding debate. That is how to secure the future of the BBC.

Charles Leadbeater compares the pace of telecommunications market liberalisation in the UK with other industrialised countries

Cut-off point for telecoms giants

Around the world great industrial edifices are starting to crumble. For decades a group of monopoly providers of telecommunications networks and services have towered over the economies they served. Now they face the prospect of being broken up by a tide of change.

Ten years ago telecommunications were invariably provided by dull government-controlled monopolies, using old-fashioned electro-mechanical technology to supply basic telephone services. Indeed, for most of its life the telecommunications sector was regarded as a natural monopoly, on the grounds that it would be inefficient for more than one company to supply the network and services to carry telephone calls.

In the last few years all that has changed. The industry has become much more dynamic, with different technologies being used to offer a widening menu of sophisticated services in an increasingly competitive international market. New technology has cut costs and opened up extra services to rival the traditional fixed links. In tandem regulators have begun to challenge the right of sluggish monopolies to dominate their markets.

One example is the British government's review of the UK telecommunications market, which was launched in November and completed its consultation phase yesterday. The review of the duopoly held by British Telecom and its rival Mercury, owned by Cable and Wireless, is also a tacit recognition that limited liberalisation – in which one competitor has been allowed to challenge BT – has not brought competition to enough areas of the market. The review is intended to lead to a greater degree of free-market competition in the sector but to maintain protection for consumers through the retention of a strong regulatory body in the Office of Telecommunications (Oftel).

If all the review's main proposals were enacted, any company could apply to install and run land-based networks to provide international, long-distance and local services, in competition with BT and Mercury. Mobile telephone operators, employing radio technology, and cable television companies, using broad-band fibre optic cable, would be encouraged to compete with the established fixed networks. Non-telecommunications companies would have greater freedom to run their own private networks.

The review would put the British market at the head of the world liberalisation movement. Other countries are finding different mechanisms to make markets more competitive. They are also displaying different appetites for change.

The uneven pace of liberalisation – the UK, the US, New Zealand, Australia and Japan have gone far further than Germany, France and Italy – threatens to create a two-speed approach to liberalisation among the developed countries. In eastern Europe Poland and Hungary are moving more quickly towards privatisation than other states. Meanwhile privatisation is beginning to roll through developing countries such as Malaysia, Mexico, Chile and Argentina.

The world's telecommunications industry is now a patchwork of markets at various stages of openness to international competition. This creates the potential for growing friction between countries such as the UK, one of the most liberal and open, and France and Germany, which are the most suspicious of foreign involvement in their industries.

Altering the status of the monopoly providers is at the core of liberalisation. Without putting them on a more commercial footing, with complementary restructuring or regulation, the second, more important stage of the process cannot get under way – creating a more competitive market.

In most industrialised countries post and telecommunications operators such as the old GPO in the UK have been split into their constituent parts. This division has just been completed in Germany and France.

Britain started the trend towards commercialisation with privatisation of BT in 1984. Since then Japan and New Zealand have followed the same path: Australia is selling Aussat, its international satellite operator; and there have been privatisations in Malaysia, Argentina, Mexico and Chile. More cautiously, the German government has said it plans to sell a minority stake in Deutsche Telecom.

Far from slowing down, however, many observers expect the privatisation bandwagon to gather momentum in the 1990s. Ms Janice Hughes, of Booz, Allen & Hamilton International, the management consultants, estimates there could be $150bn worth of telecommunications privatisations in the next five years in eastern Europe and the developing world.

Equally important, some countries have also decided to restructure their telephone companies to create greater scope for competition. The model was provided by the break-up of AT&T, the private monopoly, into eight regional companies and a single long-distance operator with the aim of creating a more competitive structure for the US industry.

The danger is that without breaking up companies which are among the largest in the world, the privatised monopolies will still dominate potential competitors.

The alternative is to keep the monopoly intact but to impose strong regulation to prevent the privatised company abusing its power. In the UK the work of Oftel is providing a model for regulators in other countries, notably east European states.

Liberalisation to promote competition has proceeded at different speeds in differing parts of the telecommunications sector.

● Markets for terminal equipment, such as telephones and facsimile machines, are the most liberalised. The advent of sockets, plug-in phones, and mobile services has increased the scope for equipment manufacturers.

The creation of more competitive equipment markets has been the main force behind a sweeping international restructuring of the equipment manufacturing sector, which has left Europe with only three substantial manufacturers, Alcatel of France, Siemens of Germany and Ericsson of Sweden. They are now in a position to challenge the likes of AT&T and the Japanese producers Fujitsu and NEC.

● The newest value added data services, such as electronic mail and electronic data interchange, are the next most liberalised part of the market. The EC plans a phased liberalisation of basic data services from 1993.

Although data services are expected to grow strongly they only account for about 10 per cent of telecommunications traffic (the remainder is voice traffic).

● Private internal networks run by large corporations, using lines leased from the telecommunications operators, have expanded as business users have sought an alternative to the public network. Many leading international companies such as IBM now run significant telecommunications networks. Companies are searching for the countries, such as the UK, which offer an attractive base for their internal networks, by providing cheap leased lines.

Liberalisation has put the UK at the head of development of international private networks. The largest share of the 14,000 private networks in western Europe is in the UK which has 4,500.

● Mobile telephony is the next most liberalised area of the market. Regulators have used the emerging opportunities of radio technology to challenge the dominance of the monopolies based on copper wire.

Although mobile telephones have penetrated the telecommunications market furthest in Scandinavia, the UK has taken a lead in promoting competition by licensing eight operators to run cellular, telepoint and personal communication network systems. Most western European countries are licensing two mobile operators, while in eastern Europe some argue investment should go into installing mobile networks rather than trying to modernise ailing electro-mechanical systems.

The British review will further the development of mobile services by allowing mobile operators to link into the fixed land-based network. This will widen the range of options for mobile phone users and extend the reach of mobile networks. Radio links could increasingly replace wiring in buildings and between subscribers and the local exchange which would link them into the trunk network.

● Where competition has been slower to take off in the UK than some other countries is in the basic telephone network. BT's only rival, Mercury, has competed mainly in a small segment of the business market. Although the UK is ahead of all other EC members, in practice competition has only just started.

Under the government's proposals competitors, such as British Rail, which has its own significant telephone network, would be free to enter the local, long-distance or international markets. Britain's cable television companies, mainly owned by regional US telecommunications companies, will be allowed to carry both television and telephone services through their cables.

The review will make the UK at least as liberalised as the US, where there are three long-distance and international providers, and Japan, where three companies compete in the international market and there is considerable competition in long-distance services.

However, there are still doubts about how much competition will be generated in the UK local networks which have not benefited from the kind of investment put into the trunk network. The lack of competition in this area is one explanation for the difference in quality of service on the two sides of the Atlantic.

The supposed telecommunications natural monopoly has been eroded in international and long-distance services where it has proved economic for competitors to enter the market by installing their own infrastructures. But while it may be economic for several operators to provide an inter-city trunk network carrying large volumes of traffic it may not be economic for more than one operator to install networks in every neighbourhood. The natural monopoly may still exist in local networks.

Liberalisation in the last decade has yielded three main lessons, and three main questions.

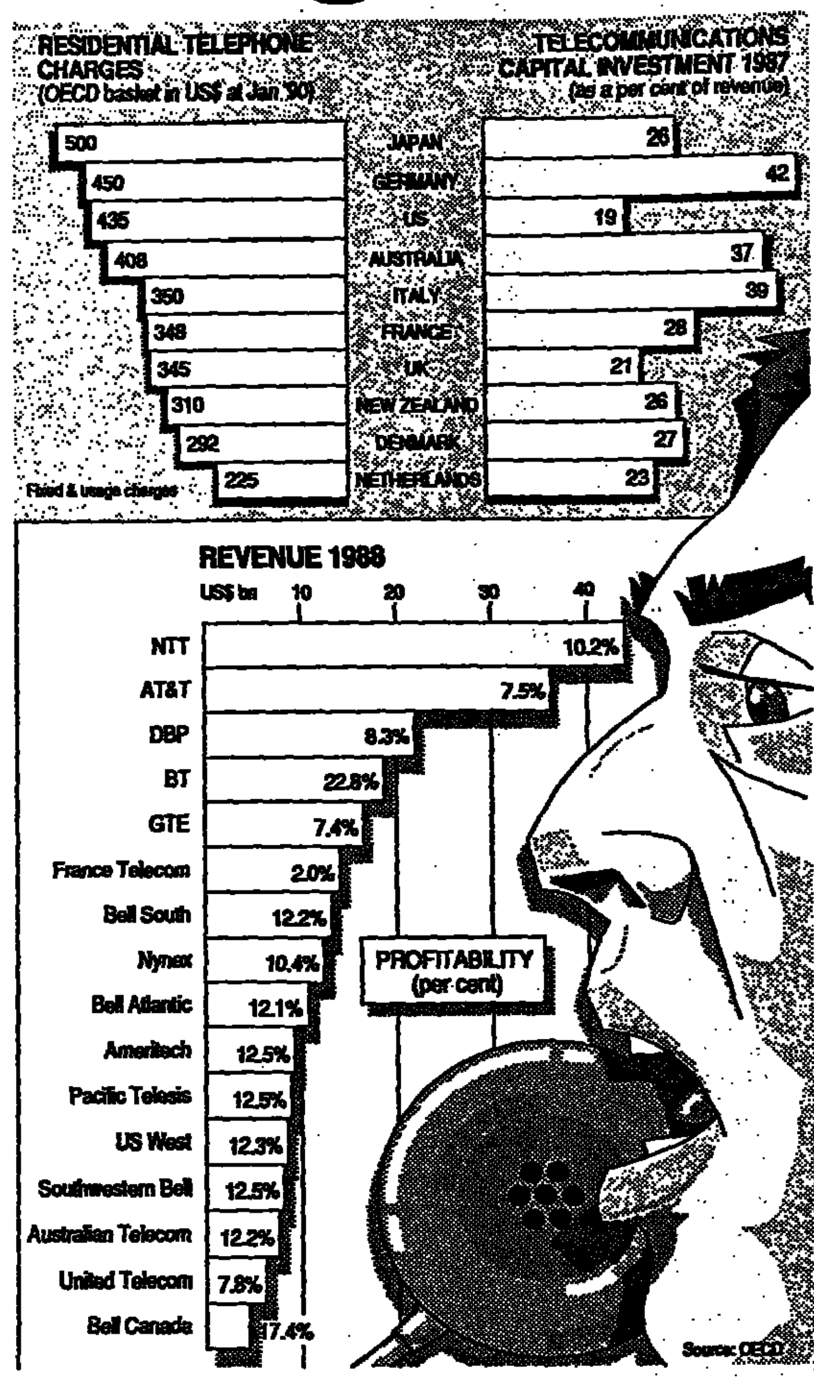
First, liberalisation is not the only route to modernising telecommunications networks and services but it is one of the most effective. The French have travelled a considerable distance through state intervention. But liberalisation has proved to be a strikingly effective way to encourage the adoption of new technologies, cut costs and extend the choice of services on offer to consumers.

However, there is still a question mark over whether it will produce a significant increase in investment in telecommunications networks. Despite liberalisation, amounts invested have remained relatively stable in the last decade.

Second, liberalisation is a process rather than an event. The old monopolies such as AT&T, NTT and BT still dominate. Without determined regulation to promote competition the free market will wither.

Third, as it chips away at the old monopolies, liberalisation is throwing in doubt the integrity of the universal networks they ran. In future there will be a mosaic of networks – private and public, mobile and fixed, broad-band fibre optic cable and narrow-band copper. Regulators will become more concerned with how these networks will be connected to one another. They will also have to decide how the public service obligation, to provide subscribers with a service even if it makes a loss, should be financed.

None of the pioneers that struggled in the mid-1980s to set off for the brave new liberalised world has reached its destination. But it is clear the journey will take longer than expected and those that arrive will find that it is more exciting and much more complex than the world they left behind.



OBSERVER

Hot under the Collor

■ It is highly unusual for a head of state to decide to sue the news media. But Brazil's image conscious President Fernando Collor is determined to show the world that his 147m-strong country is not "some banana republic". He is taking London's Sunday Times to court over allegations about his personal background that appeared in last week's colour supplement.

"The honour of the country is at stake" says an official. Antony Kerman of London solicitors Forsyte Kerman has been hired to begin the legal action. But The Sunday Times is sticking by its story which labelled President Collor, Captain Marvel, before dwelling on unsavoury allegations about the 41-year-old president's playboy past.

President Collor is no doubt upset that his honeymoon with the foreign press is over. But what has really infuriated the egocentric Brazilians is the article's demonstration that common gossip inside Brazil can be repeated on the international stage. Brazil, which is beginning to open its long-protected market, feels betrayed.

Its press and politicians, including Delfim Neto, the former finance minister, have been quick to blame the foreign creditor banks with whom talks are due to resume today. Reflecting the country's paranoia over its relations with its bankers, they claim the Sunday Times story was the result of lobbying by the banks to blacken the president's name internationally.

Capel's import

■ Bernard Asher, James Capel's new chairman, is not a banker. But his appointment is the surest sign to date that Capel's free-wheeling days are over. Its Hongkong and Shanghai Banking parent has lost patience – and, as with its other wayward offspring in Australia and the US – it wants its own men in charge.

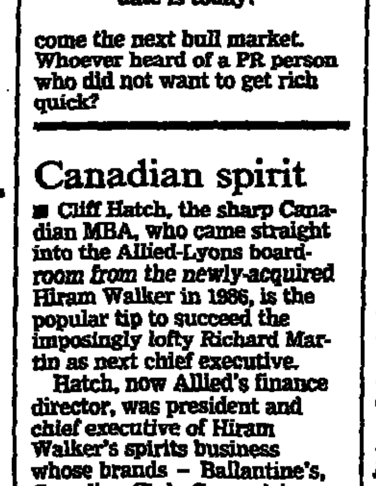
Peter Wrangham, the career Hongkong banker who replaced Capel's independently minded Peter Quinnen last March, was very much a caretaker appointment, while it was seen whether James Fergusson, architect of Capel's heady international expansion, or David Dugdale, responsible for the domestic business, might fit the slot. They remain as deputy chairmen of the group. But the arrival of Asher, a main board director of the parent, signals a much more hands-on approach by an international bank which has been long renowned for the degree of independence it permitted its subsidiaries.

The 54-year-old Asher was being suitably diplomatic about his new responsibilities yesterday. But if Capel is to have a healthy long-term future he will need to get an early grip on a cost base that is fatter than many of its competitors?

Up and down

■ There can be few industries which are quite as mercurial as City of London financial public relations firms. Yesterday saw Alan Parker, son of Sir Peter Parker and founder of Brunswick, underscore his firm's rapid ascendancy in this ethereal business by hiring David Brewerton, The Times' well-regarded City editor. Meanwhile on the other side of the City, the shares of Broad Street Group, founded by Parker's old colleague, Brian Basham, were suspended ahead of a possible rescue by its French shareholder.

Parker says that he is not going to make Basham's mistake of going public and making expensive acquisitions. It is the sort of promise which just might be quietly forgotten come the next bull market. Whoever heard of a PR person who did not want to get rich quick?



"Any idea what the date is today?"

Canadian spirit

■ Cliff Hatch, the sharp Canadian MBA, who came straight into the Allied-Lyons boardroom from the newly-acquired Hiram Walker in 1986, is the popular tip to succeed the imposingly lofty Richard Martin as next chief executive.

Hatch, now Allied's finance director, was president and chief executive of Hiram Walker's spirits business whose brands – Ballantine's, Canadian Club, Courvoisier, Tia Maria and Kahlua – firmly established Allied in the international drinks business.

That business now accounts for half of Allied's profits and its dominance is still growing. Michael Jackaman, who has run the operations with such success, is to succeed Sir Derrick Holden-Brown as chairman – and it would not be surprising if Hatch's experience in that area proved decisive in the choice of chief executive.

Holden-Brown's first job after wartime naval service was also with Hiram Walker, which added to the satisfaction of his coup in buying the company 27 years later while at the same time fending off a bid for Allied from Elders' John Elliott.

But both he and Martin rose to the top through Allied's breweries and their departure will further underline the decline of the beerage.

One of their final tasks, in fact, will be to decide in the aftermath of the Monopolies and Mergers Commission changes whether Allied should quit brewing completely.

Biters bit

■ Trick questions and other dodges to throw job-candidates off balance are a constant menace in recruitment interviews. Research studies suggest that interviewers concentrate more on trying to trap applicants into disqualifying themselves, than on assessing whether they fit the job on offer.

So it's refreshing to hear that candidates sometimes turn the tables on interviewers. Here is what a selection of US employers said when asked by the Accountemps recruitment agency about their oddest encounter with an applicant:

Arrived with a snake around her neck. Said she took her pet everywhere.

When asked about loyalty, showed a tattoo of his girlfriend's name.

Said if he was hired, he'd teach me ballroom dancing at no charge, and started demonstrating.

Indicated that if he wasn't hired, the future of the company would be jeopardised for confidential reasons.

But Observer's prize for the most economical piece of interviewer-dumbfounding goes to the following:

Applicant walked in and inquired why he was here.

Tony Walker describes the unflagging rhetoric employed by the Iraqi leader as the deadline for possible war draws to a close

Eleventh-hour calculations facing Saddam on the brink of an inferno

Japan's ambassador to Iraq eloquently summed up the mood among the few remaining envoys in Baghdad on the eve of the United Nations war ultimatum. "We are," said Mr Kunio Katakura, "on the way to Dante's Inferno."

It is hard to disagree. As minutes tick away to tonight's midnight deadline for Iraq's withdrawal from Kuwait the sense is spreading in the Iraqi capital that, barring a miracle, war in the Gulf in the coming days has become all but inevitable.

Even Iraqis who had determinedly hoped for a solution since the early days of a crisis are losing faith. "Insh'allah, God willing, there will not be a war," they say, with less and less conviction.

Perhaps more than any other event, the US Congress's decision at the weekend to authorise force brought home the threat, and the failure of the United Nations secretary-general's peace mission virtually buried hopes of a last-minute compromise. President Saddam Hussein's pre-dawn television message yesterday in which he urged his people to die for Kuwait and railed against US pressures for him to withdraw was one more exceptionally gloomy portent.

The Iraqi leader himself may well believe he has passed the point of no return. Less fatalistic Iraqis still find it hard to accept that their leader is willing to risk a devastating conflict against a vastly better-equipped foe. "The question is," asked an Iraqi intellectual, "whether this man is prepared to go to war? How can he ever imagine if he goes to war that he can win? This is ridiculous, this is baseless."

In Baghdad these days – where, curiously enough, war preparations are only now beginning to become noticeable – there are more questions than answers. Almost all focus on the personality and intentions of Mr Saddam.

Iraqi officials say that Mr Saddam is comfortable with the choices he has made and the challenges he faces. "We believe," said Mr Naji al-Hadithi, Iraq's director of information, "that war can take place at any time: we are not terrified."

It is this sort of bravado that worries foreign observers, who fear Mr Saddam underestimates the military threat, has no real concept of US might and has somehow talked himself into believing that he can withstand a US-led onslaught.

He addressed these issues in a speech to a conference of Islamic militants last week in which he assured his audience that Iraq was well-prepared for battle.

"If you go to the front line you'd find thousands of tanks and millions of men," he declared. "But not many would be on the ground – they are underground in strong reinforced positions, but as soon as the enemy attacks our soldiers will rise against them."

Mr Saddam claimed that the Iraqi army and air force had been practising for more than a year techniques to deal with a communications blackout of the kind that might follow successful US attacks against Iraq's communications system – likely to be one of the first US targets.

Richard Tomkins

Saddam: will he take war gamble?

If he believes the Iraqi military and air force, deprived of its means of communication, can perform creditably against a modern force, the dangers of miscalculation are real, and the possibility of a last-minute Iraqi backdown negligible.

Saddam's options seem extremely limited, but several possibilities suggest themselves and are still the subject of whispered conversation in Baghdad salons. One is for him to stage a unilateral withdrawal from Kuwait at the "eleventh hour and fifty-ninth minute". This is seen as extremely unlikely in the present climate because it would represent a humiliating backdown without reward.

Another option is for Mr Saddam to announce a willingness to withdraw from Iraq's "19th province" in return for an undertaking that an international conference on the Arab-Israel dispute be held within a specified time. But the US has said repeatedly: "No linkage."

Then again, the Iraqi leader may be calculating that he can entice the US into a short and bloody conflict and then ask for a ceasefire amid increasing international clamour for an end to the carnage. Such a step would be extremely risky, since Mr Saddam could not be sure that once the US had set about demolishing the Iraqi war machine it would stop.

But this third scenario may have most appeal if Mr Saddam has indeed resigned himself to war. For a leader who has almost certainly thought hard about likely conditions in Iraq after the crisis – its economy crippled by debts and sanctions, its military fractured and its ruling Ba'ath party deeply shaken – a short war followed by an honourable truce may be the best of a series of bad options.

If Mr Saddam were to emerge from a lightning engagement with his military more or less intact, and having inflicted a respectable amount of damage on the enemy, his position might be enhanced in Iraq and the wider Arab world. There are echoes here of the 1956 Suez crisis, in which President Nasser of Egypt was bloodied by Britain, France and Israel but could claim victory and emerge as the paramount Arab leader.

And then there is Armageddon – in which Iraqi attempts to engage Israel and risks an all-out war on several fronts in a desperate attempt to split the US-led alliance. Such a step hardly bears thinking about, for it would risk tremendous upheaval in the region.

The Iraqi leader's greatest preoccupation must now be his own survival and that of his own inner circle. If the war gamble is necessary to protect the House of Saddam, then there is little doubt that the Iraqi leader is prepared to expend thousands of Iraqi lives.

Mr Saddam's recent rhetoric has heightened the sense of gloom. Increasingly in his effort to mobilise Arab support, Mr Saddam has espoused revolutionary Islam in terms redolent of Iran under Ayatollah Khomeini. Some Islamic militants, hailing the secular leader for having "returned to Islam", even suggest he now be referred to as the caliph or supreme ruler of a new Arab order.

While the Islamic call to arms expressed by Saddam and his colleagues, who have always been determinedly secular, provokes cynicism among many Moslems, there is concern that the Iraqi leader may be starting to believe in his own messianic powers.

"The danger," said one observer, "is that we have now a military and oil power combined with a third power, religion. This is something very difficult to control."

FOREIGN AFFAIRS

History takes its revenge

Robert Mauthner argues that Mr Gorbachev has properly forfeit much of the west's support following his action in Lithuania

If Francis Fukuyama, the Rand Corporation analyst who postulated the west's definitive moral and ideological victory as "the end of history", were planning any lectures on his theory, this week would not be a good time to give them. History has resumed its old course with a vengeance. The world stands on the brink of war in the Gulf, while the latest Russian Nobel Peace prize winner has gone back on his fine proclamations on democracy and liberty by suppressing the freedom and independence of Lithuanians.

As in 1956, when Moscow used the opportunity afforded to it by the west's concentration on the Suez crisis to send Soviet tanks into Hungary, Mr Gorbachev has struck at Lithuania when the eyes of the whole world are on the Gulf. Even given the critical situation in the Middle East, he should not be allowed to get away with his action, which clearly contravenes the Charter of Paris, adopted by more than 30 European countries, the US, Canada and the Soviet Union only last November.

When the Baltic crisis came to a head early in 1989, there was some justification for the western countries, though they have never accepted the incorporation of Lithuania, Latvia and Estonia into the Soviet Union, to adopt a restrained attitude towards Moscow's efforts to bring the Baltics to heel. Then it was reasonable to give Mr Gorbachev the benefit of the doubt and to support him in his struggle against his conservative opponents.

The Soviet leader still appeared to be wedded to a genuine reform programme which, among other things, held out the hope of a gradual process of independence for the Baltic and other republics, perhaps within a new Soviet confederation. Moreover, the west owed a debt of gratitude to Mr Gorbachev. He had enabled the Cold War to be brought to an end, had accepted the principle of German unity and was negotiating the most far-reaching conventional arms agreement ever contemplated. These were matters which clearly counted in the equation.

Progressively, however, Mr Gorbachev has bowed to right-wing and military pressures. Liberals, such as Mr Eduard Shevardnadze, the widely-respected former foreign minister, have deserted the government's ranks, claiming that the country was moving towards a new dictatorship. A growing toughness can be discerned in official Soviet policies towards demands for greater regional and ethnic autonomy. Last year's declaration by Lithuania of a moratorium on its declaration of independence, intended to demonstrate to Moscow and the west that the Lithuanians were prepared to achieve their ends through dialogue and negotiation, has failed to persuade Mr Gorbachev to adopt a more sympathetic stance.

Moreover, the Soviet army's action in the Lithuanian capital Vilnius, on the old-style Stalinist pretext that the workers were demanding its intervention in addition to rule by presidential decree from Moscow, was of a particularly brutal nature. At least 13 people were killed and more than 100 injured when troops stormed the Vilnius radio and television building.

What can the west do in the circumstances? It is significant that at least some of the western reaction to the latest events in Lithuania has been much more outspoken than hitherto on the Baltic problem. Mr Gianni de Michelis, the Italian foreign minister, went as far as equating Iraq and the Soviet Union, neither of which, he said, would be allowed "a violation of the rules" by the international community. Mr John Major, the British prime minister, and his foreign secretary, Mr Douglas Hurd, have specifically warned that any further action by troops, particularly if directed against the Lithuanian parliament, would compel the European Community to review its economic and financial aid policy to the Soviet Union.

Understandably, given its desire for continued Soviet backing for its policy towards Iraq and the huge investment it has made in the new superpower relationship as a whole, Washington's reaction has been somewhat more cautious. But its reliance on Moscow's explicit support is clearly less than it was before the Soviet Union voted for the United Nations Security Council resolution authorising the international community to use force if Iraq had not withdrawn from Kuwait by today's deadline. To take a cynical view, Mr Gorbachev has already thrown away his bargaining card.

The witholding of economic and financial aid, particularly if Germany can be persuaded to subscribe to such a step – by no means a foregone conclusion – is a powerful instrument of pressure on the Soviet Union in its present dire economic state. President George Bush, for his part, might well decide to postpone or cancel next month's summit meeting with President Gorbachev in Moscow, at which a new treaty cutting US and Soviet arsenals of long-range nuclear weapons is due to be signed.

Witholding economic and financial aid, particularly if Germany does too, is a powerful instrument of pressure on the Soviet Union in its dire economic state

Even if the START treaty were signed on that occasion, Congress could still refuse to ratify it, as well as the agreement on the reduction of conventional forces in Europe reached in Paris last November, which is already beset by problems. Nato has accused the Soviet Union of providing incorrect data of its forces in Europe and of transgressing at least the spirit of the treaty by withdrawing to the other side of the Urals tanks and other equipment which were due to be destroyed.

In the past, Mr Gorbachev would have been sensitive to such considerations. But, following the widespread ethnic and nationalist unrest in various regions of the country, he may now be so inflexibly committed to the preservation of the Soviet Union, that he is no longer prepared to negotiate with the republics and Baltic states. If that is the case and his whole political reform programme is sacrificed, it cannot fail to lead to a serious deterioration in relations with the west.

That said, accusations that the west is adopting double standards in its attitude to Mr Saddam Hussein and Mr Gorbachev are out of place. The annexation of the Baltic states may never have been accepted in international law, but it has been a *fait accompli* for 50 years. However shameful that is considered in principle, the fact is that the Baltic states have been treated in practice by the international community as part of the Soviet Union ever since the Second World War.

Unscrambling such an entrenched situation is clearly an extremely complicated business.

Moreover, unlike Mr Saddam Hussein, it was not Mr Gorbachev who was responsible for annexing foreign territory. He has inherited a situation in the Baltics which is intimately related to all the other enormous problems he faces in the political and economic field. At stake is nothing less than the unity of the country and, very probably, his own survival as its leader.

The US and the western European countries supported Mr Gorbachev in the first place because of his economic and political reform policies, his liberation of eastern Europe and his desire to bring the Cold War to an end. In gauging their response to the latest developments in the Baltic states, they have to answer some fundamental questions. Can Mr Gorbachev still be relied upon to create a democratic and free market system in the Soviet Union, or has he become the complete prisoner of reactionary forces who want to perpetuate communism?

The answer, upon which depends the building of a whole new world order, so confidently predicted only a few months ago, is not yet entirely obvious. But what has happened in Lithuania is but the latest of many unfavourable pointers to the way things are moving. The western countries cannot intervene physically in the affairs of the Soviet Union. But they can send a clear signal to Mr Gorbachev that, if he continues on his present path, he can no longer expect any co-operation or aid from the west.

LETTERS

Testing testing

From Mr Brian Ward Lilley.

Sir, I was interested to read the report ("Attack launched on reliability of staff testing", January 2) on personality testing. The Institute of Personnel Management publishes a code on occupational testing, designed to give our members guidance on the use of tests. The code makes particular reference to personality tests and points out the dangers associated with the use of such tools. It also stresses the need to consider the reliability, validity, acceptability and effectiveness of tests before they are used. Reputable suppliers should, of course, be able to give such information.

We have given our support to the British Psychological Society's certificate of competence in occupational testing, and applaud their efforts to raise standards. However, we are increasingly concerned with the number of unvalidated and unreliable tests appearing on the market. We fear these will give testing a bad name and therefore would like to see stricter regulation of the market from the supplier end.

Brian Ward Lilley
director, General Institute of Personnel Management,
Camp Road,
Wimbledon, SW19

Devaluation alone can beat inflation

From Mr Shaun Stewart.

Sir, It is highly unlikely that the Royal Commission on the causes of, and cures for, British inflation proposed by Mr Brian Reading ("And the human scrapheap waits", Letters, December 18) would endorse Mr D. O'Shea's view ("The problem of wage creep", Letters, January 2) that inflation is a result of the shortage of skilled labour or that both can be overcome by a massive increase in public expenditure on education and training.

It is true that in 1886 the Royal Commission on Depression of Trade and Industry singled out the lack of education and training as a supply side factor in which we were "particularly deficient as compared with some of our foreign competitors", but, as the Minority pointed out in para 123 of their report, it is in reality "inevitable that in any industry engaged in a hopeless struggle against insuperable difficulties . . . those engaged in it lose heart and hope; capital and talent are gradually withdrawn from it; and as it offers reduced remuneration and a diminished prospect of advancement to skilled labour, the quality of the labour employed in it tends continually to decline, and its productions deteriorate".

The "insuperable difficulty" in 1886 was the increase in the terms of trade as a result of free entry backed by a monetary and exchange rate policy which favoured consumption at the expense of production by guaranteeing through the operation of the gold standard that an increase in income from foreign investments and other invisibles would be offset by an increase in imports and a drop in exports of manufactures.

Nothing that has happened since 1946 can be blamed on anyone but the politicians and their advisers. In October 1950 a DTI memorandum (PRO file BT 11/4423) concluded that (despite a nil increase in wages) the profitability of exports had not increased following the devaluation of 1949, even though export prices in terms of importer's currencies had fallen by only 4.5 per cent compared to 13 per cent in the case of Germany. That loss of competitiveness was the inevitable consequence of the Marshall Plan and could have been corrected only if sterling had been allowed to float in 1952, but successive governments, in the absurd belief that devaluation is inflationary, opted for import-led contraction.

That inevitably pushed up manufacturer's unit costs very much faster than those of our competitors despite a much lower rate of increase in wages. The ratio of export to import prices consequently rose from 67 per cent of the 1985 figure in 1951 to 87 in 1967, 101 in 1981 and a devastating 107 in November last, destroying 2.6m jobs in manufacturing and reducing output in the principal import-competing and export industries to less than it was in 1973.

No part of the blame for this can be blamed on manual workers in manufacturing industry. Their productivity has risen four times faster since 1979 than non-manual workers in the private sector, but even so their real earnings have risen by only 14 per cent compared to 45 per cent. That is why there is a shortage of skilled labour, and unless and until sterling is allowed to fall to a competitive level, no amount of public expenditure on education and training will make good the deficiency. It follows that tying sterling to the D-Mark can only make matters worse in every respect without doing anything to reduce inflation.

Shaun Stewart,
Labour Economic Policy Group,
72 Albert Street, NW1

UK advertising has not followed US's bad example

From Mr Kenneth Miles.

Sir, Your article ("The obsolescence of advertising", January 10) was an interesting summary of an article in the Harvard Business Review – but a little misleading in UK terms. I cannot let it pass without pointing out that it was one man's description of the state of advertising in the US, rather than a statement about advertising generally.

As this association advises and represents most leading British advertisers, I can say with confidence that the article did not describe the state of UK advertising. While more than 40 per cent of TV commercials in the US may be only 15 seconds long, in this country most are still 30 seconds or longer and we carefully control proliferation and "clutter".

Second, consumers in this country are not "fed up with advertising". Research carried out here by the Advertising Association shows a high level of acceptance of advertising, and of the fact that it does communicate in a helpful way with consumers.

Of course the author of the Harvard article is right in saying that "marketing requires a dialogue, not a monologue" and this has always been true. If advertising were merely a matter of companies shouting loudly at consumers and not paying any attention to what these consumers want to hear, then some of this criticism might be justified. But that is not the case, and I know the vast majority involved in advertising do want to be conducting a dialogue with consumers, and go out of their way through market research and other techniques to make sure that this is the case.

Anyone who puts effective marketing and advertising in opposing camps reveals a lack of understanding about the way in which the various elements in the business mix work together. For most companies and brands, well-targeted advertising is one of the key factors in effective marketing.

Kenneth Miles,
director-general, Incorporated Society of British Advertisers,
44 Hertford Street, W1

From Mr Stewart Pearson.

Sir, Your article reported on a call for a "renaissance of marketing", but fails to give it a name. There is such a new approach to marketing. It is called direct or data-based marketing. It integrates marketing and information technology; invites feedback from the customer; and engages the customer in dialogue. Above all, it works, measurably.

Faced with this change in climate, the big advertising agencies are behaving like dinosaurs. Extinction awaits them.

Stewart Pearson,
chief executive, Pearson Paul Howarth Nolan,
1/1 Harbour Yard,
Chelsea Harbour, SW10

Let us not forget the other Joe Levy

From Mr D.M. de Yong.

Sir, Your obituary (Joe Levy, December 27) did surprise me. Although you are factually correct about his business career, Joe Levy, whom I knew well and admired, had a great passion for charitable work.

In the last 20 years of his active career he devoted much of his time to this type of work, first to various London boys' clubs; latterly to the Cystic Fibrosis Research Trust. He was a pioneer of the project, which recently has shown much success in countering this destructive disease which affects so many young children.

It must sadden many of them and their grateful parents that nothing about his other "real" work was mentioned in your obituary.

D.M. de Yong,
34 Addison Avenue, W11

FINANCIAL TIMES
Tuesday January 15 1991

War could suspend Gatt talks indefinitely

Nothing has altered since the global trade talks collapsed, reports **William Dullforce**

JANUARY 15 is a milestone for the world trade system as well as a deadline in the Gulf crisis. Today, heads of delegations to the General Agreement on Tariffs and Trade (Gatt) meet in Geneva to hear from Mr Arthur Dunkel, Gatt's director-general, the prospects for resuming the global trade talks which broke down on December 7.

War or no war, their meeting can be no more than a formality. If a conflict breaks out in the Gulf, the limbo into which the Gatt's four-year trade-liberalising effort fell at Brussels will be prolonged indefinitely. *"The US will not send out its* trade negotiators, if it goes to war," a diplomat said at the weekend.

In the event of war, diplomats believe, the *US Congress* would extend beyond its effective March 1 deadline the "fast-track" authority to conclude trade deals it has given to President George Bush. The trade negotiations could then, it is suggested, be resumed after hostilities end, without an impossible time constraint.

But even if a last-hour compromise is reached in the Gulf *crisis, Mr Dunkel will have* nothing of substance to report tomorrow. The Gatt's Uruguay Round remains deadlocked over international farm trade, *the issue on which it ground to* a halt at the trade ministers' meeting in Brussels.

There has been no effort to pick up talks in other crucial areas, including trade in services and textile products, intellectual property rights and further lowering of barriers to exports, where agreements can be envisaged.

Mr Dunkel, whom the ministers *asked to* sound out ways of rescuing the Round, had hoped to introduce a more flexible negotiating system to speed matters. But after *visiting Washington*, and meetings in Brussels with Mr Jacques Delors, president of the European Commission, Mr Frans Andriessen, trade commissioner, and Mr Ray MacSharry, farm commissioner, he is not *yet able to report any significant* change in positions on farm reform that could trigger a revival of the round.

September 1986: Trade ministers launch Uruguay Round. Four-year talks scheduled to cover issues from farm reform to textiles, services, and protection of intellectual property.
December 1988: *Mid-term* review of round in Montreal ends in Latin-American walk-out following EC-US farm dispute.
April 1989: *Dispute resolved in Geneva.* Round moves into final phase.
December 1990: Final ministerial meeting in Brussels collapses after further EC-US *farm dispute. Arthur Dunkel*, Gatt director-general, given five weeks to find a way out.
January 15, 1991: Mr Dunkel today expected to inform *Gatt members more time is needed, raising expectations* that US Congress will be asked to extend March 1 deadline.

Arthur Dunkel: no movement

The EC's inflexibility over *agriculture* led to the collapse of the Gatt ministerial meeting in Brussels. The US, with the 14-member Cairns Group of farm-exporting nations, the main protagonist of farm reform, has been saying there was no point in resuming talks without European concessions.

Hopes of an easing in the EC's standpoint have been pinned to Mr MacSharry's announcement *last* month that he planned to introduce "revolutionary" changes to the Community's Common Agricultural Policy (CAP).

Mr Delors has stated forcibly that CAP reform is an internal Community affair not directly related to the Gatt talks. His officials point out that the EC's slow decision-making process cannot produce results for at *least 15 months*. Moreover, they describe as "unthinkable" any change to the Commission's farm negotiating mandate for the Gatt talks, which *the 12 member states* agreed on only after nine tortuous ministerial council meetings.

Nevertheless, the EC's internal discussions on CAP reform can have an important indirect effect on *the Commission's ability* to be more flexible in the Gatt talks on agriculture, provided there is a reciprocal lowering of ambitions over cuts in farm subsidies by the US and Cairns Group. They have been seeking cuts in three areas - 90 per cent in export subsidies and 75 per cent in internal supports and border protection.

The thrust of Mr MacSharry's proposed changes to the CAP is away from its current dual pricing system towards deficiency payments in cereals production and from price supports *towards direct payments* to farmers. Such changes would not be easily swallowed by all member states but it is generally accepted that with a *rise of some Ecu10bn ($13.7bn)* in the CAP budget in 1990 and a further Ecu15bn foreseen for this year, the EC cannot continue to keep prices for farm produce high and encourage surplus production.

Movement in the direction proposed by Mr MacSharry would signal to the EC's trading partners that a real CAP reform is in the offing and would make *it easier for the* Commission to negotiate cuts in farm supports in the three areas sought by the US. It could also allow the EC to drop *its "rebalancing" demand*, anathema to the US and Cairns countries, under which it would impose customs duties on imports of feedgrain substitutes.

The problem for the Uruguay Round lies in the timing. It is still not certain that the EC commissioners themselves will agree *at their "seminar"* on January 20 on the terms of a CAP reform proposal for submission to ministers.

Thus, the *immediate outlook* for the global trade talks remains full of uncertainty, *whether or not* there is a war in the Gulf. Two possibilities are mooted: the EC and the US may quietly open bilateral talks on agriculture and Mr Dunkel may be *able to devise* a new formula for farm reform which could provide a basis for renewed general negotiations.

Mr Andriessen will meet *ministers from Argentina*, Brazil, Chile, Colombia, Uruguay (all members of the Cairns Group) and Mexico in Uruguay, on January 25-26. The *Latin Americans*, who led the attack on the EC over agriculture at the Brussels ministerial meeting, hope that Mr Andriessen will have something *encouraging* to offer.

The EC trade commissioner *will go on to* Washington, where he will meet Mrs Carla Hills, US trade representative, and to Ottawa for talks with Mr John Crosbie, *Canada's trade minister*. Mr Dunkel will leave for Washington this week, to sound out hints that the US could be softening its hard line *on the conditions for a resumption* of talks.

The most encouraging development in Geneva over the past few days has been a *palpable firming of opinion* in favour of making a last effort to achieve results in the Uruguay Round before the expiry of President Bush's fast-track *authority. But Mr Dunkel* will have his work cut out over the next two weeks to find a way of making that effort possible.

Macao joins Gatt, Page 8; Editorial comment, Page 16

Businesses curb travel as war fears grow

By Our Industrial and Foreign Staff

FEAR of imminent war and associated terrorist attacks has begun *to affect the conduct of* business and private life in countries far from the Gulf.

Some of the widest effects concern travel – either in *planning or the availability* of services, while at another end of the scale, supermarkets in at least two western European countries yesterday reported panic buying of basic foodstuffs.

The City of London looks set for an early rush hour tomorrow as some trading rooms are expected to be staffed at 5am GMT for the expiry of the UN deadline for Iraq's withdrawal *from Kuwait*.

Most of the leading European airlines, and two large US carriers, have reduced or suspended services to *destinations in the Gulf area*.

Many companies, meanwhile, have prohibited or reduced foreign air travel by executives or issued instructions that airlines should be chosen with care. Atlas Copco, the Swedish engineering group, has even told staff not to take flights within Sweden.

Mr Charles Webb of Control Risks, the international security *management consultants*, said yesterday: "Some US companies are prominent in taking a very nervous view of the world outside the immediate *Gulf, but that is reasonable* because Americans are probably at the highest risk."

Many companies, however, appear to be heeding advice such as that offered by Mr Webb: "Planners have to keep in balance protecting the security of personnel and keeping the company in business. Forbidding employees to fly between the North Island and South Island of New Zealand, *or from* Minneapolis to Los Angeles, is missing the point."

Travel agents throughout western Europe report a sharp decline in holidays to countries *in the eastern Mediterranean*. Some British tourists, however, have shifted pre-booked holidays to Spain.

Some transatlantic travellers *have changed from US airlines* to carriers considered less at risk of attack. Others are seeking flights to Canadian rather than US airports.

Most Wall Street firms said travel plans for employees were under *review, but few* would reveal details. Shearson *Lehman* said no business trips had been cancelled so far but it was keeping the situation under review.

In London, Morgan Stanley Asset Management has instructed senior fund managers to avoid all non-essential air travel.

Du Pont, the US chemicals group, said: "We are discouraging unnecessary travel to the Middle East and Europe and are keeping people informed about terrorist threats elsewhere."

Swedish *companies* appear to have taken the most drastic measures to shield their executives from risk. Atlas Copco said it had imposed a blanket ban on air travel because the most likely terrorist targets were not aircraft, but airports.

Ericsson, the Swedish telecommunications company, has *instructed* about 300 of its senior personnel on trips abroad to take special care over flight plans and choice of airline.

But it said it was "unthinkable" that all air trips abroad should be stopped.

Belgians yesterday engaged in panic buying of sugar, flour, rice, pasta and salt. One supermarket manager in Brussels *said old people in particular* seemed to be stocking up and attributed this to memories of the Second World War.

Supermarkets in southern France reported similar panic buying of frozen food, rice, pasta, sugar and cooking oil. Four regional chains said they briefly ran out of supplies of sugar and oil at the weekend.

Fuel distributors in Northern Ireland reported a surge in *demand for heating oil in spite* of appeals for calm and assurances there were no supply problems.

As the UN deadline *approached, even the sybaritic* Milanese appeared to have shunned a night at the opera for a quiet one at home watching the television news. La Scala said yesterday that, unusually, seats were still available for tonight's performance of Rossini's *Le Comte Ory*.

British Airways loses Tokyo airport slots to Virgin

By Paul Betts, Aerospace Correspondent, in London

BRITAIN'S Civil Aviation Authority (CAA) *yesterday* stripped British Airways of most of its take-off and landing rights at Tokyo's Narita airport and handed them over to Virgin Atlantic Airways, the small UK long-distance airline owned by Mr Richard Branson.

The move, which could set an important precedent in the way take-off and landing rights or "slots" are allocated at heavily congested international airports, was designed to increase competition on the busy London to Tokyo route, the CAA said.

British Airways (BA) is appealing to Mr Malcolm Rifkind, the UK transport minister, against the ruling. It claimed the decision was not in the interest of the travelling public and involved substitution of one airline with another rather than competition on the UK to Japan air routes.

Under its ruling, the CAA decided to vary BA's air transport licence from April 1 to limit the carrier to 26 flights a week to or from Narita airport instead of the 30 it currently operates.

In turn, this will enable Virgin to operate six round trips a week *between London and* Tokyo instead of the four, which it currently operates.

Virgin had asked for a larger number of BA slots at Narita to enable it to operate eight round trips a week to *Tokyo. But the airline said it* was pleased with the CAA decision and planned to start its new Tokyo services on April 2.

It is the first time the CAA has been asked by an airline to *change the licence of a competitor* to allow it to operate more flights at a foreign airport.

Mr Branson, the Virgin chairman, had argued earlier this month at a CAA public inquiry that the survival of Virgin's London to Tokyo *service depended on the airline* gaining greater access to Narita to enable it to operate daily services.

British carriers have a total of 38 slots a week at Narita.

The Japanese government has not been prepared up to *now to increase this limit* and expected the UK authorities to allocate these slots to its airlines.

Yeltsin challenge

Continued from Page 1

Ukraine, Kazakhstan and Belorussia – had agreed to go ahead and negotiate their own *new national agreement*, in defiance of Mr Gorbachev's efforts to forge a single all-union treaty.

Mr Yeltsin is taking a big *gamble on his personal* popularity in the country in confronting *simultaneously* the Soviet military and the Communist Party as represented by Mr Gorbachev.

His appeal to Russian soldiers and officers amounted to a virtual instruction to them to disobey orders. It followed an agreement he signed in Tallinn, the Estonian capital, on *Sunday night with the* three Baltic republics declaring that none of their soldiers would attack each other.

Mr Yeltsin's appeal was *broadcast over the* radio and television in the Baltic republics – except for Lithuanian television, which is *under military* control. It came on as Soviet troops seized another small radio station in Vilnius, in apparent defiance of an agreement *not* to take any action for 24 hours. That agreement was negotiated by a peace mission to the republic despatched by the Federation Council – *the supreme executive* body under Mr Gorbachev.

Soviet Union credit rating to be downgraded by Deutsche Bank

By David Marsh and Katharine Campbell in Frankfurt

DEUTSCHE BANK, Germany's biggest bank and one of the west's largest lenders to Moscow, is to establish risk provisions on loans to the Soviet Union, publicly downgrading the country's previously top credit rating.

"For us, the Soviet Union is a problem country. We will have to take this into account *in our provisions policy*," said Mr Hilmar Kopper, speaker (chief executive) of Deutsche Bank, in an interview with the Financial Times.

He coupled his warning on the Soviet Union's credit standing with *a statement ruling* out any new German bank lending to Moscow unless this was backed by a 100 per cent guarantee from the Bonn government.

"We are making this very clear towards Bonn – that at the moment there is no manoeuvring room for German banks to take over Soviet risks themselves."

The Deutsche Bank chief gave a *bleak view* of Soviet economic prospects, adding to general German anxiety unleashed by the military clampdown in Lithuania.

In the Bundestag yesterday Chancellor Helmut Kohl condemned the weekend violence and said: "We are deeply concerned over the future of the policies of restructuring, reform and 'New Thinking' in the Soviet Union."

Because of the disarray in Moscow, Mr Kopper said he saw no room for any "constructive" use of western funds. Such credits "only make sense *if the Soviet Union* knows what it wants. "That is not yet the case...*I do not* see any plan, I see no idea in the economic sense...I have only questions, questions, *questions. I do not* yet see any answers."

Establishment of loan provisions will be decided formally when the Deutsche Bank board finalises the *bank's end-1990* accounts in the next few weeks.

Mr Kopper stressed that Deutsche Bank's outstanding loans to the *Soviet* Union were "not figures which particularly worry us", but said that the move would represent precautionary measures in line with *the bank's current conservative* policies on bad debt write-offs.

At the end of 1989, the bank's country risk provisions *covered 77 per cent of loans* extended to 53 mainly developing countries on its "problem list".

Although Mr Kopper said that the official Soviet Union debtor, the Foreign Trade Bank, was paying its debt service exactly on time, Soviet enterprises are currently estimated to be around DM1bn ($600m) *in arrears to German* exporters.

Deutsche Bank and Dresdner Bank co-led a DM5bn credit for the Soviet Union last summer, covered by a 90 per cent Bonn government guarantee.

Deutsche refused to participate in a DM2bn Eurocredit for Moscow in September because Bonn refused to offer a 100 per cent guarantee, although one *of 95 per cent was offered*.

Concerning the recent Soviet wish for a further *DM2bn* credit to cover payments arrears, Mr Kopper said: "There are an endless number of new wishes."

German banks would still have to step in with a large credit covering exports to the *Soviet Union being made* by traditional supplier companies in east Germany, he said. But this would have to be backed by the government's Hermes export credit guarantee agency.

THE LEX COLUMN

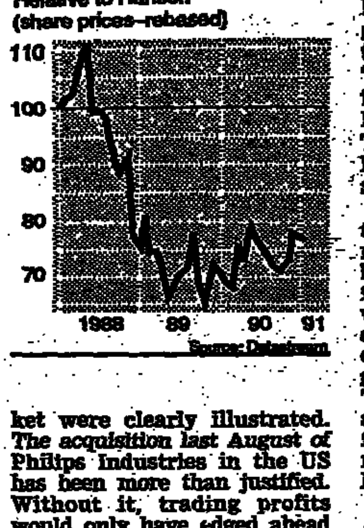
Sterling looks on the bright side

From a British viewpoint, the mood of crisis in world markets is proving to have a silver lining. Sterling is a relatively safe haven, having a high yield and residual status as a petro-*currency*. From a position of immediate danger within the ERM a month ago, it is now very close to its central rate. Though an immediate base rate cut might be tactically inadvisable, it has suddenly become perfectly feasible. In addition, as sterling has risen in response to the Gulf, so the D-Mark has fallen in response to the crisis in the Baltic. An important side-effect of this is that even if the Bundesbank were to raise interest rates, as still seems quite possible, the UK and most of the other EMS members could afford not to follow suit.

An actual cut in UK rates is another matter. The nine-pfennig rise in sterling in the past *month is not merely* the result of the Gulf. It has much to do with the efforts of Mr Lamont and Mr Major to convince the markets of their ERM credentials. To cut base rates as soon as sterling reaches its central rate would be to gain little and risk much, particularly since the money markets are not now discounting a cut within the next month or more. And were the Gulf crisis to end suddenly and the oil price to revert to $15, sterling could be embarrassingly exposed again.

A more plausible tactic would be to allow sterling to rise to the point where the authorities could legitimately claim that it was causing excessive tightness in monetary policy, then begin a series of half-point cuts. While the process cannot yet be guaranteed, it is remarkable that it can be envisaged at all.

Tomkins
Relative to Hanson
(share prices-rebased)



Tomkins

The timing may have been unfortunate, but there was no denying the solidity of Tomkins' impressive interim results yesterday. A market wholly preoccupied with the Gulf was not disposed to reward a one-third profits rise to £31m, *let alone* a near 17 per cent dividend increase. It may not quickly get a chance to revise its opinion of the group, but the case for a short-term re-rating looks strong. Tomkins' shares have consistently lagged those of larger conglomerates by around 20 per cent, but deserve to do better as the big asset traders become less fashionable.

The performance was not *flawless, but the virtues of* diversification in a bear market were clearly illustrated. *The acquisition last August of* Philips Industries in the US has been more than justified. Without it, trading profits would only have edged ahead by 5 per cent, the UK in particular showing signs of standstill. The process of trimming Philips's corporate fat is well under way. Tomkins, which was 6 per cent geared last April, now has £40m net cash, only partly as a result of last year's rights issue.

The problem lies not at the *end of this financial year*, when £108m pre-tax looks possible and implies a p/e of roughly 7.5, but further out. The US may or may not be in a shallowish recession. But by the autumn, Tomkins should be looking to sustain its prodigious growth rate by making acquisitions in a UK economy which has not yet hit bottom. If its managers pass that test, Tomkins' record will speak for itself.

Tootal

Analysts inevitably scramble to downgrade profit forecasts when a chief executive chooses an alternative career three weeks before the company's year end. The chief interest in the departure of Tootal's Mr Geoffrey Maddrell, though, is whether it finally opens the way for a revived bid from Coats Viyella. The answer seems to be that shareholders - whose company has underperformed the market by over 40 per cent since the first merger proposal 18 months ago - may have to endure another wait. Coats' Sir David Alliance is not noted for his generosity. Having paid an average 138p for his near 30 per cent stake, he will doubtless be looking for a better bargain this time.

Nor is Coats exactly flush *with cash. It recently warned* that it may have to cut its final dividend and arguably has some sorting out of its own operations still to complete before it embarks on an integration process as complex as that which Tootal will involve. The sums might just work on the basis of an agreed merger. But it is not quite clear that Tootal is ready for that, Mr Maddrell's departure notwithstanding.

While the logic of merging the two thread businesses remains compelling and overhead reductions could save £25m or so - an early strike would also be risky in the sense that the depth of the downturn is not yet clear. With gloomier profit forecasts for Tootal now below £30m against a recent range of £33m-£37m - its prospective multiple of just over 11 at 68p looks a shade risky.

Chloride/Hawker

The long, unedifying Chloride story was one of the more painful British manufacturing débâcles of the 1980s. It now seems to be nearing its end. Assuming the sale of Chloride's industrial batteries business to Hawker Siddeley goes through, the rump of the company will consist of a £120m turnover electronics business devoted almost entirely to making back-up power units for computers. That is a worthy occupation, but does not sound like an adequate foundation for a stand-alone UK quoted company.

This is especially so since the Chloride electronics division in question is a fledgling which made only £2.1m of taxable profits in 1989-90 after years of losses. Hence it would not be surprising to see what is left of Chloride disappear altogether into a larger group. With 20 per cent of its shares already in the hands of [illegible], the Swedish private investment company, that seems likely to happen sooner rather than later.

As for Hawker Siddeley shareholders, this is one of those deals whose industrial logic has to be accepted on trust as part of Hawker's much-hyped restructuring plan. Given that Hawker gets a brand-new factory near Manchester, which should require no further capital investment, plus a 30 per cent increase in its industrial battery sales, the £44m purchase price does not seem excessive. But it raises an important question about what happens to Hawker's borrowings, which had risen to £150m by last July and could now be well over £200m.

WORLDWIDE WEATHER

[illegible]			

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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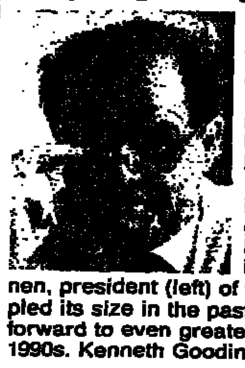
INSIDE

French ski groups report heavy losses

Skiers on holiday in the alps should get their money's worth this winter — for once there's been plenty of snow. It's come too late though to return the French ski industry to profit this year. Yesterday, both Salomon, the world's largest maker of ski bindings, and Rossignol, the leading French producer of skis, announced heavy interim losses for the six months to last September. Both companies said they expected to stay in the red for the full year though they envisaged returning to the black in 1991-1992. William Dawkins reports. Page 20

They might be giants



Outokumpu started life as a mining company. Today it not only mines copper, nickel and zinc, but also smelts these metals. It has assembled one of the world's biggest copper semi-fabrication businesses and is probably the only global player in this highly-competitive industry. Pertti Voutilainen, president (left) of the group, which has tripled its size in the past 10 years, is looking forward to even greater expansion in the 1990s. Kenneth Gooding reports. Page 23

Accounting for accountants

The collapse of Polly Peck has focused unwelcome attention on the Turkish accounting profession at a time when many of the country's companies are trying to improve their international profile. Many fear the group's demise could have a damaging effect on the way Turkish business is perceived internationally, while a law introduced on January 1, appears to contravene European Community directives. John Murray Brown reports. Page 23

Batteries not included

Chloride Group is turning from batteries to focus on electronics. The group, whose shares were some of the worst-performing of the 1980s, yesterday said it planned to sell most of its formerly core battery business. Having disposed of all but a few of its battery operations, the group would be virtually debt-free, said Ray Horrocks, chairman (above). Andrew Bolger reports. Page 26

Finding work for idle hands

UK mergers and acquisitions specialists reckon that this is the quietest period since the recession of the early 1980s. The bull market is over. The entrepreneurs who did deals are in retreat. Conglomerates have gone out of fashion. Despite this lull, however, there is still much for M&A teams to do. Companies trying to cut debt often look to sell subsidiaries and there is no shortage of cross-border alliances being forged. Maggie Urry looks at the work of M&A teams in a silent City. Page 28

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Falls				**Falls**			
Aachener Mu	625	–	35	Alcatel Alsthom	485.9	–	22.1
BHF-Bank	372	–	18	Arjomari-Prioux	1431	–	58
Deutsche Bank	580	–	26.5	Eurocom	630	–	30
Horten	155	–	13.5	Fromageries	1701	–	100
Rheinelektra	1913	–	47	Havas	373	–	30
Rosenthal	295	–	15	Pernod Ricard	904	–	41
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
BP	73⅜	+	¾	Chiyoda Corp	1830	+	30
Mobil	56⅞	+	¾	**Falls**			
Newmont Gold	41½	+	⅝	C. Itoh	691	–	29
Texaco	58½	+	½	Daishowa Paper	2380	–	320
Falls				Honshu Paper	1160	–	80
Chase Man	10¾	–	⅛	Marubeni	685	–	19
PNC Financial	19⅝	–	½	S'tomo Metal	452	–	4
LONDON (Pence)				Davies &			
Rises				Newman	95	–	40
BrentWalker	60	+	3	Grand Met	644xd	–	13
Brit Aerospace	528	+	4	Misys	54	–	7
BP	325	+	4	Pearson	615	–	13
Macdonald Mart	600	+	35	Pepe	78	–	5
Vaal Reefs	37⅞	+	2⅝	Rank Org	594	–	14
Falls				Ratners	182	–	9
Barclays	334	–	10	Royal Ins	358	–	16
Bass	1029	–	19	Tarmac	120½	–	17½
Bromsgrove	101	–	9				
Bunzl	56	–	5				

Peat Marwick to axe US partners

By David Waller in London

KPMG Peat Marwick McLintock, the world's largest accountancy firm, is planning to lay off one-sixth of its 1,875 partners in the US. The move is the latest evidence of a serious recession in the US accountancy profession where two leading firms have closed down since last November.

Mr Jim Butler, the London-based chairman of KPMG, said yesterday that the lay-offs were confined to the US and were being made in an attempt to anticipate worsening market conditions. There was no likelihood of the lay-offs spreading to the UK, he said.

The scale of redundancies is unprecedented. Many US firms have laid off partners in cost-cutting exercises, while Peat Marwick axed significant numbers of partners after its merger with KMG in 1987. But this programme will affect approximately 300 partners, "a huge number" according to one competitor.

Ms Pamela Middleton, director of communications in the US, said the lay-offs should be seen as a "pre-emptive strike".

"We're not doing this from a weakened financial position. This is a preventative measure to make sure we don't have problems as market conditions get worse," she said.

Peat Marwick's board of directors decided on the lay-offs last week but have not determined which partners will lose their jobs.

Office managing partners will conduct a review of operations and those who have to go will be told by March 1.

The compensation package is likely to include a payment equivalent to one year's salary.

The recession in the US accountancy market reflects a severe drop in transaction-related special work – such as investigations of takeover targets – as well as the general downturn in the US economy.

Consultancy projects, which were an important area of growth in the 1980s, have been cut sharply.

Until now, these problems have been felt most sharply by middle-tier firms rather than the Big Six practices of which Peat Marwick is the largest.

Last November, Laventhol & Horwath, the seventh-largest firm in the US, ceased trading and shortly afterwards Spicer & Oppenheim, another medium-sized firm, was disbanded.

One reason why UK firms are unlikely to feel the recession as severely as their US peers is that American firms do not do insolvency work.

This is an important source of income in the UK when times are hard.

J.P. Morgan defies downward trend in US bank results

By Alan Friedman in New York

J.P. MORGAN, the big New York banking group, continued to buck the dismal trend in US commercial banking by reporting a 24 per cent rise in fourth-quarter net income, to $191m or 98 cents a share.

Morgan, one of the strongest and most conservatively managed of US financial institutions, has consistently outperformed the rest of the US banking sector. Results from most other banks tell a sorry tale of spreading recession and loan losses.

Chase Manhattan, the second biggest US bank, yesterday reported hefty fourth-quarter bad debt provisions and a full year 1990 loss of $334m or $3.31 a share.

The effect of recession and property loan losses was also underscored by the halving of fourth-quarter net profits at First Chicago, where the $57.1m net profit was struck after $110m of provisions for loan losses and a $19m charge for staff reductions and office closures.

Results from First Chicago translate into a 31 per cent drop in net profits to $249.3m for 1990. First Chicago is based in a region which has supposedly been less affected by US economic woes.

The downturn in the Pennsylvania economy was also highlighted yesterday by the news that PNC Financial Corporation, the 15th biggest US bank holding company, is facing $400m to $450m of fourth-quarter loan losses. It expects a deficit for the quarter of up to $175m.

In New York, Mr Dennis Weatherstone, chairman of J.P. Morgan, said 1990 results were helped by significant fourth-quarter gains on the trading side, which earned $212m, or $92m higher year-on-year. Morgan's net interest revenues were 6 per cent up at $87m in the fourth quarter.

At Chase, fourth-quarter earnings were in line with expectations at $193m. Net interest revenues and fees were up, but offset partly by trading losses and increased bad debt provisions.

The bank's restructuring, aimed at reducing operating expenses by $300m, was almost complete, said Mr Tom Labrecque, chairman. Chase's full-year 1990 results were affected by $1.3bn of bad debt provisions, including $650m in the third quarter.

The bank also took $350m of restructuring charges and recorded $212m of gains ($160m after tax) from the sale of properties in Germany and Japan.

Lions of Detroit lose their roar

Kevin Done reports on the US car industry as the big three prepare for disastrous results

The élite of the US auto industry were out in force for the weekend's gala charity preview of the North American International Auto Show. But the state of the industry's fortunes was more accurately reflected in the slabs of ice flowing past on the nearby Detroit River.

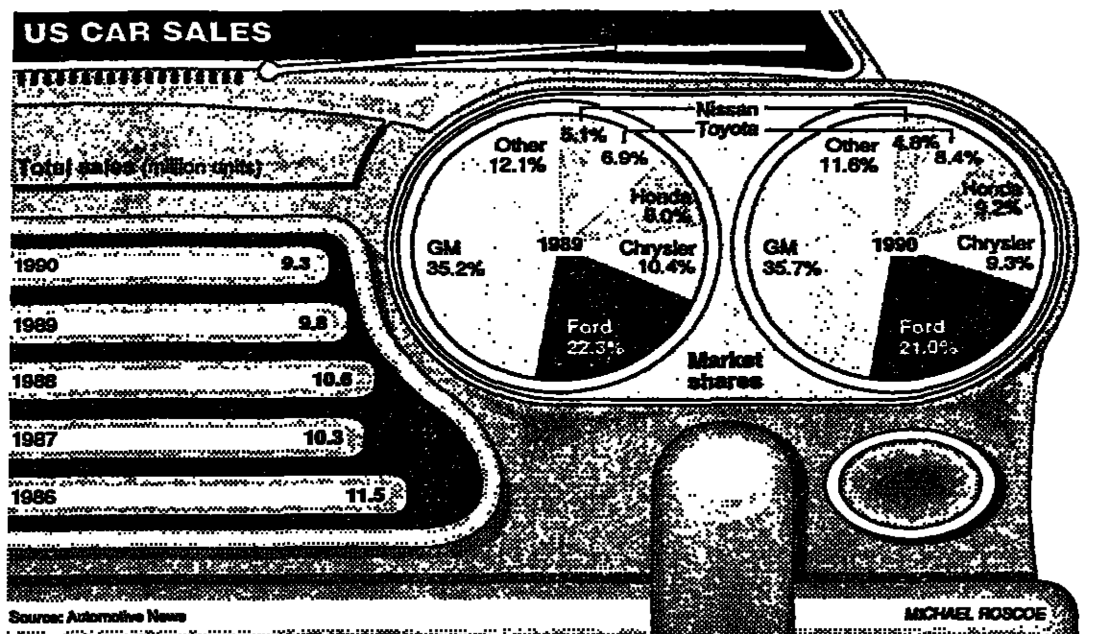
In coming weeks, the big three US carmakers – General Motors, Ford and Chrysler – will disclose disastrous fourth-quarter financial results. Analysts are forecasting that during the period GM will lose about $1.4bn – the biggest-ever quarterly loss for any car company. Ford will lose between $350m and $460m, and Chrysler $33m-$45m.

Ford Motor staved off the embarrassment late last week of being the first to cut its quarterly dividend, but the payment for the second quarter still appears shaky. Standard & Poor's, the US credit rating agency, has placed GM, Ford and Chrysler on its negative CreditWatch list, indicating that the debt ratings of some or all of the carmakers could soon be downgraded.

The US auto industry is facing an unprecedented squeeze on profit margins. As vehicle-building capacity in North America increases – Japanese carmakers are still adding new plants – and sales fall, the competition is fierce. Virtually all manufacturers are engaged in costly and intense marketing wars.

According to Mr Jim Perkins, general manager of General Motor's Chevrolet division, the US industry paid an average discount of $1,200 for every car sold last year.

US car sales fell by 5.2 per cent in 1990 to an estimated 9.3m. In three of the last four years, car sales have fallen from a peak of 11.5m in 1986. Total car and light truck sales (for many Americans cars and light trucks such as mini-vans and pick-ups have become standard private cars) fell by 4.8 per cent to 13.8m.



Sales were already at a low ebb, but in the US they appear to have entered a period of suspended animation. "You live from day to day on orders," said Mr Harold Poling, Ford chairman and chief executive. "They are not non-existent, but they are very weak."

Even without a Gulf war, the US economy is already in recession and consumer confidence is battered. According to Mr Poling: "The recession will continue through the first half of this year."

However, he told the Detroit Economic Club on the eve of the motor show that Ford did not believe this recession would be as tough as the one 10 years ago. Recent action by the Federal Reserve to ease interest rates could allow a recovery to begin in the second half of 1991, with the year as a whole showing a half per cent fall in GNP. But the precarious state of the US financial sector and the threat in the Gulf could easily bury such a forecast, warned Mr Poling.

Carmakers are being forced to dig deep into their reserves of optimism as US car and truck production last year – at 9.9m – hit its lowest level since the recession of 1983. The share of the US car market taken by the big three American producers declined again last year by 1.9 percentage points to 66 per cent.

There was some consolation for General Motors, which increased its share to 35.7 from 35.2 per cent a year earlier. Ford, which outgunned GM throughout the 1980s, suffered a fall to 21 from 22.3 per cent.

It is a sign of the times, however, that perhaps the biggest contributor to GM's improvement was the Geo nameplate of its Chevrolet division. Geo is the marque used by GM for a range of small cars with Japanese origins that it sells through its own dealer network in the US. Geo sales jumped by 50 per cent in one of the marketing coups of the year.

Chevrolet's Geo Prizm is a Toyota Corolla by another name, its Geo Storm is an Isuzu Impulse, its Geo Metro a Suzuki Swift, its Geo Tracker a Suzuki Sidekick. Several of the vehicles, which are all Japanese designed and engineered, are now produced in North America in joint transplant ventures with GM.

The share of the US car market taken by Japanese models jumped from 25.3 per cent in 1989 to 27.6 per cent, including cars of Japanese origin which are sold under US nameplates, the market share is well over 30 per cent.

This steady rise in Japanese presence has drawn criticism from industry leaders. Robert Lutz, president of Chrysler Motor, on Sunday night urged the government to limit Japanese market share in the US, including local production.

The Honda Accord was the best-selling car in the US for the second successive year. Honda came within a whisker of ousting Chrysler from third place in the US car market. The Japanese group, including its Acura luxury car division, captured 9.2 per cent of US car sales compared with Chrysler's 9.3 per cent.

The ailing Chrysler group, which had to abandon co-operation talks with Fiat of Italy last year because of the worsening economic outlook, suffered a fall in market share from 10.4 per cent in 1989.

Not all the Japanese producers are flourishing, however. Nissan lost US market share last year at a time when most Japanese carmakers were gaining.

According to Mr Poling, worldwide Japanese vehicle production capacity has increased since 1979 from about 10m to almost 17m in 1990. Of last year's total, about 1.7m were produced in North America, almost double the level of 1987.

Ford claims that total worldwide production capacity exceeds demand by 8.4m units, and almost 6m units of this overcapacity is aimed at the North American market.

"The situation is expected to remain a serious problem throughout the decade. By 1995, Japanese production capacity is expected to reach some 19m units, of which 2.5m will be located in North America," said Mr Poling.

As if to add salt to the wounds, Toyota announced at the Detroit show that it will soon decide on its plans to enter the US market for full-size pick-ups. This is one of the few segments not yet touched by the Japanese carmakers and an important symbolic preserve of US producers.

Chrysler names president, Page 22

Blow to Astra prospects as FDA reverses Losec decision

By Robert Taylor in Stockholm and Clive Cookson in London

ASTRA, the Swedish pharmaceutical group, suffered an unexpected blow to prospects for its Losec anti-ulcer drug with the announcement yesterday that the US Food and Drug Administration had not approved Losec for use in the first-line treatment of all ulcers.

The refusal reverses a recommendation made last May by the FDA's own advisory committee. Losec, sold under the trade name Prisolec through Merck in the US, was first approved by the FDA in September 1989 for limited use in critical cases of reflux oesophagitis.

The FDA decision is a setback for Astra which had expected Losec to be granted approval for wider use in ulcer treatment. In the run-up to Christmas the company had expressed confidence that it was only a matter of a few days before the FDA gave its recognition to the drug.

Astra A shares fell SKr32 to close at SKr385 ($67.50) on the Stockholm bourse yesterday. Any delay in approving Losec is good news for Glaxo of the UK whose best-selling drug, Zantac, is the world's leading ulcer treatment. Glaxo shares rose 24p to 842p in London on Friday in anticipation of an adverse FDA decision on Losec; yesterday they followed the market down and lost 8p.

Since its launch in 1978 in Sweden, Losec has made an impressive inroad into world markets. The drug accounts for a fifth of Astra's total drug sales.

Mr Staffan Terby, Astra's information director, said yesterday that nothing had been finalised with the FDA over the use of Losec.

Astra said it was in talks with the FDA and Merck.

It said it could not accept the FDA's proposals, adding that discussions were aimed at finding an acceptable form of words which would indicate with precision what ulcer cases can be covered by the use of Losec in the US.

Losec is a more powerful drug than Zantac and the FDA is saying that the drug can be used only where patients are "poorly responsive" to "customary medical treatment" of duodenal ulcers.

HK Bank tightens grip on J Capel with appointment of new chairman

By John Elliott in Hong Kong and Richard Waters in London

THE HONGKONG and Shanghai Banking Corporation has moved to take direct control of James Capel, its London-based broking subsidiary which has made heavy losses, by appointing a new executive chairman.

Mr Bernard Asher, who started his new job yesterday, has been executive chairman of Hongkong Bank's Wardley merchant banking subsidiary since 1987. His appointment ends Capel's high degree of independence since becoming a Hongkong Bank subsidiary in 1986 – a relationship that set Capel apart from most London-based houses.

During that time, relations between the broker and its parent have been soured by a string of heavy losses, in part due to trading mistakes by the firm but largely as a result of difficult market conditions.

Capel is expected to report heavy losses for 1990 when it reports annual results in March. This follows losses of £46.2m ($88m) in 1987 and 1988 and pre-tax profits of £4.6m in 1989.

In the past year, although the broker says it has generally been operating at break even, it has been weighed down by a number of one-off factors: a significant loss in its euroconvertible business in London at the start of the year, the cost of closing down some parts of its operations, including its fixed interest business, and redundancies.

Last month Hongkong Bank called off a three-year-old engagement with the UK's Midland Bank with which it had been expected to merge under a joint holding company. Its priority now is to reverse its hands-off approach to management of its subsidiaries and to return them to profit.

Part of the deal when Capel was acquired was that the broker would be left to run its own affairs. This led to constant friction until Mr Peter Quinnen, chairman and chief executive, resigned last March after a series of rows with Mr William Purves, the Hongkong chairman.

Mr Asher succeeds Mr Peter Wrangham, Hongkong Bank's London-based director, who became non-executive chairman when Mr Quinnen left.

Hongkong Bank's move was welcomed cautiously in London yesterday. A senior Capel executive said: "We had little option – we either had to cut back and become very much smaller, perhaps through a buy-out, or carry on what we are already doing and get closer to the bank."

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Tootal chief resigns as pre-tax profits are cut

By Jane Fuller

THE RESIGNATION of Mr Geoffrey Maddrell as chief executive of Tootal, the UK textile group, has removed an obstacle to the group joining forces with its rival Coats Viyella and increased doubts about Tootal's profit performance.

Mr John Craven, Tootal's chairman and also chairman of Morgan Grenfell, the merchant bank, gave two reasons for the departure. He said Mr Maddrell would have had difficulty in dealing with Coats Viyella had the aborted merger been revived, and that the business needed new leadership to carry out more rigorous management.

The departure of Mr Maddrell coincided with the cutting of forecasts of Tootal pre-tax profit from about £35m ($66m) to less than £30m for the year about to end.

This would bring the figure to a lower level than the £30.2m recorded in 1986-87, the year Mr Maddrell joined. Yesterday's share price of 68p compares with the 138p originally agreed with Coats.

Mr Craven said Mr Maddrell had made "intemperate comments" after the £395m merger fell through. Coats, which retains a 29.9 per cent stake in Tootal and is headed by Sir David Alliance, cut its offer substantially in autumn 1989 because trading conditions had worsened during a Monopolies and Mergers Commission inquiry.

Mr Craven added that Mr Maddrell's potential role as managing director of the combined group had been cancelled out by Coats's appointment of a chief executive, Mr Neville Bain. It was, however, pointed out that it was more than a year since merger discussions had taken place between the two groups.

Mr Maddrell, 54, who joined Tootal from Bowater, is being replaced by Mr Anthony Habgood, head of the fabrics, clothing and non-woven fabrics businesses. Another executive director, Mr James Harrison, takes up the post of deputy chairman.

Mr Habgood said it was important for Tootal to have a "sensible commercial relationship" with Coats as they were mutual suppliers as well as potential partners.

French ski companies see heavy losses

By William Dawkins in Paris

SALOMON, the world's largest maker of ski bindings, and Rossignol, the leading French producer of skis, incurred heavy losses in the six months to last September and expect to stay in the red for the full year.

Good snowfalls in the Alps after several years of inadequate snow cover have come too late to return the French ski industry to profit this year, although both companies envisage returning to the black in 1991-1992.

Demand for downhill skis has slipped by more than 10 per cent, while the market for cross-country skis has fallen by 40 per cent, the companies estimate.

Salomon swung into a net loss ofFFr92.7m ($17.8m) from a profit of FFr171.5m in the corresponding period of last year, after an exceptional cost of FFr62m for the 467 job losses which it started to make last June. The company said the second half should show an improvement over the first, though there would still be a loss for the year.

Rossignol swung from a profit of FFr59.6m to a loss of FFr12m, and is forecasting a loss of at least FFr100m for the year. This will include a FFr130m exchange rate loss caused by the impact of the dollar's decline on the French currency value of its US golf equipment company, acquired in an attempt to diversify away from the troubled ski industry. Salomon has also diversified into golf equipment, and yesterday reported that the market was weak.

Rossignol also expects a FFr20m restructuring bill for the full year. Its sales in the first six months fell by 16.8 per cent from FFr855m to FFr711m.

● Credit Lyonnais, the French state-owned bank which last week was given a seat on the board of French construction group Société Auxiliaire d'Entreprises (SAE), plans to build up a share stake in the company.

French press reports suggest that the bank could buy up to 5 per cent of SAE.

Elf seeks Spanish acquisition

By William Dawkins in Paris

ELF Aquitaine, the French state-controlled oil group, is hoping to buy Ertoil, the Spanish petrochemical producer, as part of a strategy of expanding its downstream operations in Spain.

Ertoil was acquired only last week from Ercros, Spain's largest chemicals producer, by General Mediterranean Holding (GMH) a Luxembourg-based investment company headed by Mr Nadhmi Auchi, a British businessman of Iraqi origin, who also has a 4.5 per cent stake in Paribas, the leading French investment bank.

In an ironic twist to the deal, the Kuwait Investment Office controls Torras Hostench, the main shareholder in Ercros.

GMH had outbid Total, Elf's smaller state-controlled oil company rival, and several other medium-sized oil groups to buy Ertoil for Pta44.5bn ($461m) and made no secret of the fact that it simply wanted to sell the group on to an oil company.

Loïk le Floch-Prigent: chairman of Elf

Elf has emerged as an obvious candidate because of its eagerness to build up sales in Spain, which it considers an important market for refined products. The French group is understood to be confident of its chances of acquiring Ertoil, and believes negotiations could be concluded in a few months.

Total yesterday confirmed that it is no longer interested in bidding for the Spanish petrochemical group.

Ertoil owns a refinery producing lubricants, bitumen and asphalt at Huelva in the south of Spain. Also of interest to Elf is Ertoil's 7 per cent stake in Campsa, the state-controlled chain of service stations which holds a near monopoly of Spanish petrol distribution.

Campsa's activities are due to be shared out among five oil groups in the next year, as a result of the application of European Community competition rules to the Spanish petrol market.

Elf's Spanish expansion began last July when it announced plans to take up to 25 per cent of Cepsa, the country's second largest oil group, plus 3.2 per cent in Banco Central, Cepsa's main shareholder. The aim is to co-operate in refining and marketing in Spain.

If the deal goes through, it will have been a busy few days for the corporate strategists at Elf, which is headed by chairman Mr Loïk le Floch-Prigent.

Last week, Sanofi, the French drugs company which is 62 per cent-owned by Elf, announced that it was to pool most of its operations with Sterling Drug of the US. The deal creates one of the world's top 20 pharmaceuticals groups.

Sanofi and Sterling Drug are to form new group with combined annual sales of $2.3bn. Sterling Drug is part of the Eastman Kodak group.

Roche annual sales rise 3%

By William Dullforce in Geneva

ROCHE, the Swiss pharmaceuticals and chemicals group, yesterday reported a 3 per cent increase to SFr9.68bn ($7.6bn) in sales in 1990. Without giving a figure, it said it expected to post another improvement in profits.

In 1989, the group, which formerly traded as Hoffmann-La Roche, recorded a 33 per cent climb in net consolidated earnings to SFr852m.

When calculating last year's growth in turnover, adjustment has been made for the sale of the Maag crop protection business and the Medi-Physics radiopharmaceuticals company.

In local currency terms, the year-on-year increase was 14 per cent, but the 1990 figure includes fourth-quarter sales by Genentech, the Californian biotechnology company, of which Roche acquired 60 per cent last year. Genentech's sales have been running at about SFr140m a quarter.

Roche's confident profit forecast is based on the strong performance of its pharmaceuticals division, where sales climbed 10 per cent to SFr4.8bn, equivalent to 21 per cent in local currencies.

Rocephin, the antibiotic drug, and the anti-rheumatic Tilcotil had made special contributions to the increase, Roche said. Good results were also realised on the non-operational side.

Sales of SFr2.4bn in vitamins and fine chemicals represented a 6 per cent decline in Swiss franc terms, but a 3 per cent rise in local currencies. The high value of the franc against the dollar had increased price and cost pressures overseas, Roche said.

An unchanged turnover of SFr1.3bn in diagnostic equipment concealed a 14 per cent increase in local currency terms.

Revenue from fragrances and flavours reached SFr1.1bn, a 2 per cent fall in Swiss franc terms but a 5 per cent increase in local currencies.

Nora and Orkla to discuss co-operation

By Karen Fossli in Oslo

NORA INDUSTRIER and Orkla Borregaard, two Norwegian companies with interests in the food and drinks industry, are to meet this week to discuss future co-operation.

Norax has a 20 per cent shareholding in Orkla and says that it wants to boost co-operation. For its part, Orkla has long advocated creating bigger Norwegian industrial units which would have muscle enough to withstand foreign advances.

"A co-ordination of Nora's and Orkla Borregaard's food activities will give a size which can be a 'locomotive' within Norwegian industry and give increased strength for further internationalisation," Mr Leif Frode Onarheim, Nora's managing director said.

About 20 per cent of Nora's turnover stems from business outside Norway. In the first eight months of 1990, the company more than doubled profits to NKr493.7m ($82.35m) from NKr197.7m in the same period a year earlier.

Orkla profits rose in last year's eight month period to NKr605m from NKr448m in the same period in 1989.

Snecma warns of falling demand

By William Dawkins

SNECMA, the French state-controlled aircraft engine maker, yesterday warned that the slowdown in demand from its defence customers was spreading to civil markets.

Mr Louis Gallois, group chairman, estimated that Snecma's sales rose 14 per cent last year to FFr14.1bn ($2.71bn), slightly below earlier forecasts because of the embargo on sales to Iraq.

Several hundred million francs of business had been lost as a result of the Gulf crisis, although Mr Gallois declined to give further details. He expected net profits to be between FFr50m and FFr100m, as against FFr85m in 1989. Without the embargo, profits would have increased, he estimated.

The evidence for the slowdown is a decline in the rate of new orders, FFr10.4bn last year as against FFr12.4bn in 1989. Mr Gallois said activity was low in defence and that civil demand, which represents three-quarters of turnover, started to weaken in the second half. This was especially true for the CFM56 commercial jet engine, jointly made with General Electric of the US.

He attributed the market weakening to US airlines' financial problems, the dollar's weakness and general slowdown of leading economies.

However, this was not yet serious enough for Snecma to reduce its production, currently averaging 100 engines a month. The order book stood at FFr34.5bn, representing three years' work at the current rate, of which 82 per cent was destined for export.

AEG turns in DM500m loss for year

By David Goodhart in Bonn

AEG, the German electrical and electronics subsidiary of the Daimler-Benz group, has made operating losses for 1990 of about DM500m ($326m), according to a German press report.

The company refused to comment on the report but confirmed that losses were expected at the long-troubled office equipment subsidiary, Olympia, and at Sparta automation technology. AEG also confirmed that both subsidiaries were now up for sale.

The loss, if confirmed, would be more than twice as high as previous press estimates, and compares with a break-even result at operating level in 1989.

In September, the company said it had broken even on the first six months of 1990 and should be able to maintain the 1989 dividend. "That statement still stands," said an AEG official.

A large loss at AEG will be a further drain on Daimler-Benz and is likely to postpone the transference of AEG's profit to Daimler which was to have begun in 1992.

UBS dividend cut 'unlikely'

UNION BANK of Switzerland (UBS), Switzerland's largest bank, does not think a dividend cut on 1990 results is likely, despite expectations that profit will be down between 10 and 20 per cent, according to a Swiss press report, Reuter reports from Zurich.

Mr Nicholas Senn, chairman, said the bank is seeking to keep its personnel and other costs under control, but stressed that no lay-offs where planned.

Siemens buys two east German companies

SIEMENS, the German electrical and electronics group, has purchased two electrical engineering companies in eastern Germany, AP-DJ reports from Bonn.

The two companies will eventually mean more than DM1bn ($652m) in additional sales, a Siemens official said. He also said Siemens hopes to finalise agreements announced earlier to take over two east German cable companies before the end of the month.

Siemens plans to invest a total of DM75m in the two electrical engineering companies in the next two years. Most of that will go into computers and improvements in machinery.

With 5,100 employees throughout eastern Germany, the two companies will provide Siemens with far-reaching market penetration in the area, the group said.

Continued on Page 21

INTERNATIONAL COMPANIES AND FINANCE

Margins squeeze depresses NCR in final quarter

By Alan Friedman in New York

NCR, the Ohio computer company that is the target of a $6.1bn hostile takeover bid from American Telephone & Telegraph (AT&T), yesterday revealed a 24 per cent slump in net earnings for the fourth quarter of 1990 to $111m.

On Wall Street, NCR's share price was marked $1¼ lower at $84. The value of AT&T's cash bid for the company is $90 a share.

The drop in profits was attributed to a decline in domestic US revenues, to a squeeze on gross margins due to the cost of introducing a new generation of products last autumn, and to substantial growth in research and development, advertising and marketing expenses related to the new products.

The fourth-quarter profit was struck on revenues of $1.89bn, a rise of 6 per cent. For the whole of 1990, NCR recorded a 10 per cent drop in net profits, to $369m. Full-year revenues were 6 per cent higher at $6.29bn.

NCR's earnings per share reached a new high of $5.43, but this was due partly to the company's buy-back of 7m shares during 1990, a programme that also depressed net income.

Mr Charles Exley, NCR's chairman, said the company's ability to grow in 1991, especially in the first six months, will be limited by the slowing worldwide economy. He forecast modest growth in full-year profits, but he added that first-half earnings would be affected by the transition to new products.

The battle with AT&T is expected to occupy NCR's top management for much of the next few months, culminating in a series of legal and proxy battles toward April, when NCR will hold its annual meeting of shareholders.

Charles Exley: forecasts modest full-year growth

Bank of Nova Scotia buys 24% Chile stake

By Bernard Simon in Toronto

BANK OF Nova Scotia is taking advantage of Chile's improved economic outlook by buying a 24 per cent stake in Banco Sud Americano, the country's sixth-biggest bank.

Toronto-based BNS has paid US$20.7m for its stake, financed by converting part of its public sector loans to Chile into local currency under the Chilean government's debt-for-equity plan.

The Canadian bank will appoint two directors to Banco Sud Americano's 10-person board.

BNS is understood to be interested in acquiring equity stakes in other Latin American banks, especially in Mexico.

It already has extensive interests in the Caribbean, and sees expansion in selected Latin American countries as a sound long-term strategy in view of the moves towards closer trade ties between Canada, the US and other countries in the western hemisphere.

BNS also owns 40 per cent of Solidbank, one of the leading banks in the Philippines.

Banco Sud Americano has assets of about US$1bn, with 31 branches and 1,500 employees. The chairman of the bank, Mr Jose Borda, and two vice-chairmen between them own 55 per cent of its equity.

Chile's successful return, Page 28

Junk bond problems push Insilco into filing for protection

By Karen Zagor in New York

INSILCO, a diversified US manufacturer which was taken private in a $812.8m leveraged buy-out in 1988 financed through high-yield bonds, has become the latest victim of the junk bond frenzy of the 1980s.

The company filed for protection from creditors under Chapter 11 of the federal bankruptcy code because it was struggling to make interest payments.

Insilco, which makes specialty products for the automotive, telecommunications, electronics, defence and consumer products markets, was acquired by two Texas oil magnates, Mr Cyril Wagner and Mr Jack Brown, who forced management to abandon an earlier bid of $742m for the company.

The bankruptcy filing may strike a blow to Merrill Lynch, which underwrote two junk bond issues for the LBO. Merrill Lynch is reported to have owned half of a $218m junk-bond issue in May and a substantial amount of another $270m issue.

A company spokesman said: "Although Insilco's cash flow from operations excluding interest is positive, declining financial performance resulting from an increasingly difficult business environment and recessionary economy made it extremely unlikely that the company would be able to meet its ongoing interest and debt service requirements."

For the nine months to September 30, the company turned in a net loss of $52.4m on sales of $501.3m. Its had operating income of $44.8m. Insilco expects its 1990 interest expense to be about $113.5m.

Insilco, which had $880m of debt at the time of the takeover, now has about $778m in outstanding debt, including $248m in bank debt, $455m in subordinated debt and $75m in senior notes.

The company said it filed the voluntary petition after protracted negotiations with bondholders, which started more than eight months ago, failed to produce a restructuring agreement of the company's debt.

Abbott Laboratories climbs 10%

By Karen Zagor

ABBOTT Laboratories, the Chicago-based pharmaceuticals and healthcare company, yesterday turned a 10.6 per cent rise in fourth-quarter net income to $279.6m from $253m in 1989. Sales jumped 17.1 per cent to $1.71bn from $1.46bn a year ago.

The company had fewer shares outstanding in the latest quarter, and earnings per share grew 14 per cent to 65 cents from 57 cents.

For the whole of 1990, Abbott's net profits improved 12.3 per cent to $965.8m from $859.8m. Earnings per share rose to $2.22 from $1.93. Sales in 1990 advanced to $6.16bn from $5.38bn.

Mr Duane Burnham, chairman and chief executive, attributed the improved performance to higher unit sales worldwide from each of Abbott's main businesses, significant new product introductions and results from the company's continuing emphasis on improving productivity.

During the year, the rate of return on shareholders' investment was 34.7 per cent, against 33.1 per cent in 1989.

Sales of pharmaceutical and nutritional products rose 13.5 per cent in 1990 to $3.16bn.

In the US, sales increased 10.2 per cent to $3.84bn, while sales in international markets, including direct exports from the US, surged 22.4 per cent to $2.32bn.

Abbott is benefiting from a growing stable of new medications. During 1990, the company received approval from the Food and Drug Administration (FDA) to market its blood screening test to detect hepatitis C.

The hepatitis C virus is said to be the most prevalent transfusion-related disease in the developed world.

Chrysler appoints Lutz to new post of president

By John Griffiths

MR ROBERT LUTZ has been appointed to the newly-created post of president of Chrysler Corporation. The move is part of a restructuring of top management positions within North America's third largest vehicle producer, which has lost four of its most senior executives during the past year.

The 58-year-old Mr Lutz, who joined Chrysler in 1986 having previously been chairman of Ford of Europe, becomes responsible for all Chrysler Corporation's North American motor activities, including sales, marketing, product development, procurement and supply, and manufacturing.

He is also responsible for Acustar, Chrysler's parts manufacturing subsidiary and Chrysler operations in Mexico.

Mr Lutz's former titles, president and chairman of Chrysler Motors, have been discontinued.

The move consolidates Mr Lutz's third position in the Chrysler Corporation hierarchy, following the departure at Christmas of Mr Bennett Bidwell, the flamboyant former chairman of Chrysler Motors, and the earlier departure of Mr Gerald Greenwald, once widely regarded as "heir apparent" to Mr Lee Iacocca, Chrysler Corporation's chairman.

Robert Lutz: former Ford of Europe chairman

Mr Greenwald's place as deputy chairman of Chrysler Corp was taken by Mr Robert Miller, chief financial officer since 1981.

Chrysler has also appointed four general managers to co-ordinate all product development and market/consumer data for product lines. The general managers will report to Mr Lutz.

The shuffle comes at a difficult time for Chrysler which, in common with General Motors and Ford, is facing a downturn in the US vehicle market.

Embraer plans more cost-cutting

By Victoria Griffith in Sao Paulo

THE Brazilian government has officially closed its coffers to Embraer, the state-owned aircraft manufacturer, forcing the ailing group to embark an another big cost-cutting programme to remain in operation.

Mr Joao Cunha, the newly-appointed president of Embraer, said he would have to step up production and cut costs in order to save the company.

As part of the new austerity programme, he has suspended the CBA-123 jet, an Embraer joint project with Argentina.

The total cost of the venture is estimated at $300m, of which $180m has been spent since 1985.

"We will be selling off cars, land and anything that is not immediately necessary for production," Mr Cunha said.

The president added that employment levels, which were cut by a third a few months ago, would be unaffected. Mr Cunha said that Minister Cardoso de Mello has promised to pay the $200m the government owes Embraer in accounts payable if the company presents a viable rationalisation programme to the government over the next few weeks.

The minister also conceded payment of funds from a former debt conversion programme. Embraer can expect the last instalment of the total $150m outstanding by January 15.

KKR may bid for Bank of New England

By Alan Friedman in New York

KOHLBERG, Kravis, Roberts (KKR), the leveraged buy-out specialists best known for its $25bn takeover of RJR Nabisco, is believed to be considering a bid for the remains of the Bank of New England (BNE), the Boston-based bank that was seized by federal regulators on January 6.

KKR refused to comment on a possible bid, but it has been learned that the New York firm initially expressed an interest in the New England bank last summer when bank executives discussed a possible capital injection from KKR.

The leading contenders for the 300-branches and remaining assets at BNE are the California-based Bank of America and Banc One of Ohio. At least three other bidders are understood to be in the wings.

US stores to close

SEARS, ROEBUCK, the biggest US retailer which is trying to improve its disappointing merchandising operations, is to close 47 McKids stores. Sears said about 600 employees would be affected, writes Karen Zagor in New York.

US bill proposes market regulator changes

By Barbara Durr in Chicago

LEGISLATION to settle the long-running dispute between the Commodity Futures Trading Commission, the futures regulator, and the Securities and Exchange Commission, the securities regulator, was introduced yesterday by Senator Patrick Leahy, chairman of the Senate agriculture committee.

The Futures Trading Practices Act of 1991 is sponsored by six key senators from the agriculture and banking committees which oversee the two regulatory agencies.

It would allow the CFTC to retain its authority over stock index futures, the main bone of contention, but would assign margin authority for these to the US Federal Reserve.

Currently, margins are set by the exchanges, with broad oversight by the CFTC.

The bill would also alter the CFTC's exclusive jurisdiction over hybrid financial products, such as index participations, which could trade under either the federal futures or securities regulatory schemes.

The CFTC is also granted exemptive power to allow certain new products to trade outside the futures regulatory system, and is directed to exempt swap agreements and certain bank certificates of deposit.

The CFTC and the SEC are also directed by the bill to co-operate on such intermarket issues as circuit breakers, intermarket fraud and cross-margining.

The provisions settling this jurisdictional dispute were worked out as a compromise in the Senate late last year. The compromise is not supported by the Chicago markets. The legislation also contains the CFTC's five-year re-authorisation, which specifies funding and new powers for the agency.

Citing recent federal investigations of fraud in Chicago markets, Senator Leahy urged rapid consideration of the bill.

Deregulation keeps Finnish mining group on solid ground

Kenneth Gooding finds the chairman of Outokumpu optimistic as the state loosens its grip on the expanding company

OUTOKUMPU, the Finnish mining and metals group whose size has tripled in the past 10 years, looks set to continue its rapid growth in the 1990s, according to Mr Pertti Voutilainen, the president.

He admits that vigorous acquisition activity in the second half of the 1980s strained the company's financial resources, mainly because the majority shareholder, the Finnish government, was not willing to provide much extra equity funding.

However, the structure has changed recently so that Outokumpu is now state- and privately-owned. The group's A shares have been traded on the Helsinki stock exchange since October 1988. The Finnish government has reduced its shareholding to 57 per cent, with the rest held by institutions and private Finnish investors.

Restrictions on non-Finnish nationals owning shares in the group have also been lifted so that foreigners can between them own up to 20 per cent of the issued capital.

"The political trend in Finland is towards privatisation. I am sure that some day in the 1990s Outokumpu will be less than 50 per cent owned by the state," says Mr Voutilainen. The Finns go to the polls in March for a general election and privatisation will be one of the key issues.

"To us, this is not an ideological question, but a pragmatic one. How do you raise equity?" says Mr Voutilainen.

He points out that most of Outokumpu's recent growth has been outside Finland. Half the operations are now outside the country; half the 6,300 employees are not Finnish; and 90 per cent of the sales are derived from other markets.

"It only seems reasonable that, as an international base metals company, we should be listed on other stock exchanges," he says.

This will take some time, Mr Voutilainen admits. Another difficulty Outokumpu faces is that investors find it difficult to understand the group or to find another company with which to compare it.

Outokumpu started life as a mining company. Today it not only mines copper, nickel and zinc, but also smelts these metals. It has assembled one of the world's biggest copper semi-fabrication businesses and is probably the only global player in this highly-competitive industry.

Pertti Voutilainen: Trend in Finland is toward privatisation

The group owns an array of embryonic companies involved in special services and frontier-type technologies associated with its mainstream businesses. These are likely to have a significant impact on earnings in years to come.

And, unusually for a base metals group, Outokumpu is a big and growing stainless steel producer.

The group started the 1990s with its core businesses divided into four segments: base metals production; copper products; stainless steel; and technology. Copper mining and smelting activities are set to expand rapidly in the next few years as Outokumpu attempts to balance production with demand from its copper semi-fabrication operations. These have been hugely expanded by recent acquisitions; the group took control of Iberica del Cobre in Spain, and paid about $200m for American Brass, the second largest copper semi-fabricator in the US with a 20 per cent market share.

Although Outokumpu's copper semi-fabricating operations will use 450,000 tonnes of the metal this year, its own copper mines have the capacity to produce only 50,000 tonnes and its smelters 100,000 tonnes.

Projects under consideration in Chile, including the promising Zaldivar deposit acquired recently, would lift mined copper output to between 100,000 and 150,000 tonnes a year. Outokumpu would also have 60 per cent of a planned copper smelter in Portugal, which will output more than 200,000 tonnes a year.

The base metals operations and fabrication of copper products each accounted for about one third of Outokumpu's 1989 sales of FM12bn ($3.3bn). Fabrication will jump to 40 per cent of sales this year.

Mr Voutilainen says the group will pause to digest the recent acquisitions. The copper semi-fabrications market is highly competitive and there is over-capacity in Europe, so Outokumpu will concentrate on putting its operations on to a more solid footing.

One reason for Outokumpu's growing international presence is that its mines in Finland are running out of ore and it must go to other parts of the world for new sources.

The group is the biggest zinc producer in western Europe, through its ownership of the Tara mine in Ireland. Smelting is carried out in Finland.

"We have clear targets and objectives for our zinc operations, but we are not talking about them publicly. We will maintain our position as one of the world's leading zinc producers but there is no urgent need for us to grow in zinc," says Mr Voutilainen.

Outokumpu's strength in the stainless steel sector also comes from integration. Chromium and nickel are mined and processed into stainless steel, which is then cold-rolled, all on one site at Tornio in Finland.

However, looking ahead to when nickel supplies might run short, Outokumpu has a half-share in the US$350m Mt Keith project in Western Australia, which will add about 5 per cent to western world supplies of nickel when it comes on stream in two years.

As Mr Voutilainen points out, Outokumpu also wants to locate its copper semi-fabrication production close to customers and is therefore developing pan-European, north American and Pacific Basin operations. "If we want to grow, we will grow outside Finland because we have no more room to grow inside Finland."

However, he says it will be many years before the group can take advantage of potential markets in neighbouring Soviet Union.

Mr Voutilainen suggests the Soviet Union does not have the money to buy many western products. "But in order to build a base for future development they must invest in technology. And that gives us a market."

The Soviet Union accounts for only 2 per cent of Outokumpu's metal sales. The potential, however, is enormous.

Saudi bank 31% ahead despite run on deposits

UNITED Saudi Commercial Bank (USCB) yesterday posted a 31 per cent advance in net profits for 1990, despite the shock to the Saudi banking sector caused by Iraq's August 2 invasion of Kuwait, AD-DJ reports from Manama.

USCB, the first Saudi bank to report its 1990 results, said net profit rose to SR125.3m (US$33m) from SR95.3m in 1989.

The bank was able to recoup some of the customer deposits that were withdrawn in the immediate aftermath of the Iraqi invasion.

In common with all the kingdom's commercial banks, USCB suffered a considerable outflow during the second quarter of 1990.

Overseas banks cut their lending and Saudi residents rushed to withdraw their deposits because of initial fears that Iraqi troops might advance into Saudi Arabia.

Customer deposits rose 7 per cent to SR4.4bn at the end of last year from SR4.1bn at September 30 1990. But they were still below the SR4.5bn recorded at the end of June.

Total assets rose 19 per cent to SR6.2bn from SR5.2bn at the end of 1989.

USCB, which has not paid any dividends since it was created in 1983, again decided against a payout for 1990. The entire net profit for the year was transferred to bolster shareholders' funds, which rose 39 per cent to SR445m from SR320m at the end of 1989.

The bank set aside SR30m in provisions against possible loan losses, unchanged from the 1989 provision.

USCB was formed after a merger of the Saudi branches of Bank Melli of Iran, Banque du Liban et d'Outre Mer and United Bank of Pakistan. However, the bank also inherited a loan portfolio which soon turned sour with the downturn of the Saudi economy in the mid 1980s.

The bank made its first net profit in 1988, soon after installing new management.

During the past few years it has grown into one of the kingdom's most profitable banks, in terms of return on assets.

Turkish accounting shake-up reveals blemishes on the books

John Murray Brown on mixed reaction to laws designed to improves the country's reputation in international business

THE problems of Polly Peck International, the UK-based group with extensive Turkish and northern Cypriot interests which was placed in administration in October, could not have come at a more awkward time for the Turkish accounting profession, already in the throes of one of the biggest shake-ups in its short history.

The collapse raises serious questions about how well the local subsidiaries of foreign quoted companies are audited at a time when many Turkish groups are bidding to improve their international profile.

Over the longer term, several Turkish bankers believe the affair is likely to have a damaging effect on the way Turkish business is perceived internationally.

But there are also fears about changes in the accountancy industry. In the last decade most, though not all, of the large accountancy houses have set up in Istanbul, catering for Turkish companies and banks who needed externally audited accounts to present to international business partners.

These internationally-oriented operations contrast with an older tradition of accountancy in Turkey which was little more than book-keeping for tax purposes.

Firms do not make provisions against such items as severance pay or deferred taxation

On January 1, a new Turkish accountancy law, intended to provide a new legal framework for the industry, came into full effect. It separated the profession into tax consultants and auditors.

And, to the consternation of many foreign auditors already in Turkey, the law also prohibits foreign auditors – auditors who are not Turkish citizens – from signing a Turkish company's accounts. To continue to carry out audit work in the country, international accounting firms have had to form joint ventures with local accountants.

The new laws also allow accountancy professors to carry out audits and government inspectors to assess tax liabilities. One foreign accountant described it as the retirement law of the ministry of finance.

"Turkish accounts will now be audited by people who know nothing of the profession," says one aggrieved foreign accountant.

Although not yet a member of the European Community, Turkey is committed to bringing its business standards in line with Brussels. But, as one US accountant put it: "If Turkey were to join the EC, this new law would be declared invalid."

The law is not only in direct contravention of the EC's directive on the mutual recognition of qualifications, it is also largely against the interests of large Turkish groups who, now more than ever, need the international auditor's seal of approval when seeking offshore finance or a link-up with foreign multinationals.

Accounting in Turkey is still largely a tax assessment exercise as far as most companies are concerned. Some would argue the main point of the new legislation was to make tax collection easier.

Turkish practice falls well short of international standards. Firms do not make provisions against items such as severance pay or deferred taxation. There is no consolidation in the internationally accepted sense of netting out inter-group activity.

Also, for companies seeking a listing on the Istanbul stock exchange, initial audit requirements appear to offer investors little protection.

Vestel Elektronik, for example, is a white and brown goods company which was floated on the Istanbul stock market in June. It is regarded as one of the strongest companies in the Polly Peck group.

Officials say Vestel Elektronik has yet to present a set of externally audited accounts

According to Istanbul stock exchange officials, Vestel Elektronik has yet to present a set of externally audited accounts. Confirming this, Mr Tahsin Karan, the Vestel chairman, said the company had yet to choose an external auditor.

Accountants in Istanbul say the pro-forma balance sheet of Vestel presented to investors when the company was taken to the market, is virtually meaningless. The only figures on the exchange files were signed by Mr Ilknur Boraci, a lawyer employed by the company.

Since Vestel was only quoted in June 1990, the company will not have to present external accounts until June this year, according to the Capital Markets Board, the government watchdog for the Turkish securities and investment industries based in Ankara. According to the exchange's listing requirements, a company needs the signature of two qualified accountants.

The case of Vestel is hardly encouraging at a time when the Turkish accounting profession is already in disarray. There is, however, course, a more positive approach. As the senior partner of one Istanbul auditing firm put it: "It often takes a corporate scandal to create a better profession."

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday, January 14, 1991. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	52.0997	33.7298	38.5811
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights January 11, 1991 United Kingdom £0.741781 United States $1.41198 Germany D Mark 2.16781 Japan Yen190 194
European Currency Unit Rates January 14, 1991 United Kingdom £0.698513 United States $1.32298 Germany D Mark 2.05168 Japan Yen179.264

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (f) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar.
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday, January 14, 1991.

INTERNATIONAL CAPITAL MARKETS

Chile makes successful return to world finance

By Leslie Crawford in Santiago

CHILE has become the first Latin American country to secure a voluntary syndicated commercial bank credit since the debt crisis struck in 1982.

Mr Alejandro Foxley, the finance minister, said a group of 20 international banks last week fully subscribed $320m in *Eurobonds issued by the* Republic of Chile.

The successful placement marks Chile's return to the international financial markets.

It also completes Chile's debt rescheduling accord which was negotiated in record time – five days – in New York last September.

Mr Foxley said that in backing the Eurobond issue, creditor banks were displaying "a strong sign of confidence in Chile's medium and long-term *economic future*".

He stressed that this was no mean achievement given the domestic troubles affecting US banks and the international climate of uncertainty engendered by impending war in the Gulf.

US banks subscribed $160m of the $320m issue. European, Canadian and Japanese banks took up the remainder. The five-year bonds, with two years' grace, carry an interest rate of 1.5 percentage points over Libor; $200m will be issued in March this year and $120m in March 1992.

Alejandro Foxley: banks were showing confidence in future

Mr Foxley said the bonds were not tied to specific projects, but would contribute to the government's investment programme over three years.

Unlike Mexico and Venezuela, Chile renounced the option of a package of debt reduction and compulsory fresh credits as this would have delayed its return to the voluntary lending markets and its full rehabilitation in the eyes of its creditors.

In *1982, Chile* had the highest per capita foreign debt in Latin America. The overall figure of $17bn has not changed since then, but Chile's pioneer use of debt-for-equity swaps and other buy-back schemes has reduced its commercial bank debt from $11bn *to $7bn.* A dramatic growth in exports has allowed the country to service its debt without difficulty.

The $320m loan is seen as a reward for the success of Chile's economic reforms and its impeccable debt-servicing record. It will also provide a strong incentive for other Latin American countries to emulate the Chilean model – privatising state companies, reducing fiscal deficits and opening up to international competition.

German banker to join PW

MR VOLKERT KLAUCKE, the former joint head of Deutsche Bank's mergers and acquisitions subsidiary, is joining Price Waterhouse, the accountancy firm, as a partner and managing director of PW's M&A business in Germany, writes David Waller.

The appointment is unusual in that senior bankers rarely join accountancy firms, and especially so because PW is relatively weak in Germany having broken its association with one of the country's larger domestic practices in 1988.

The move is, however, consistent with PW's strategy of expanding its corporate finance activities in Europe as a fourth business leg to complement the more traditional businesses of auditing, consultancy and tax services.

DB Mergers & Acquisitions, of which Mr Klaucke was joint managing director with Mr Bodo Fuchs, has come under the management of Morgan Grenfell following Deutsche Bank's acquisition of the UK merchant bank in 1989. Mr Fuchs left last summer.

Although the Deutsche Bank corporate finance subsidiary claimed market leadership in Germany, fee income for 1989 amounted to DM22m from 12 deals.

Mr Klaucke said that he joined PW because of the firm's European network – which would facilitate cross-border transactions – and because opinion the firm had a better approach to M&A business in Germany than local bankers.

Liffe to list FT-SE futures contract

By Tracy Corrigan

THE London International Financial Futures Exchange plans to list the FT-SE 100 index futures contract on the exchange's automated pit trading (APT) system from February 4.

The early evening trading session will run from about 4.30pm to 6pm.

"Liffe members will be able to provide their international customers, particularly those in the US who are showing increasing interest in the contract, with the opportunity to trade after the end of the European trading day," said Mr Michael Jenkins, Liffe's chief executive.

Volume in the FT-SE 100 future, Liffe's only stock index contract, ran to 1.4m contracts in 1990, up 40 per cent on the previous year.

Futures contracts already listed on APT are the long gilt, US T-bond, bund, short sterling, Eurodollar and Euromark contracts.

APT, launched on *November* 30 1989, is a screen trading system which simulates the conditions of open-outcry pit trading. On January 7, APT traded its one millionth contract. There are currently 115 APT workstations, used by 51 Liffe *members and 600 traders.*

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on January 14

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	101	101½		8.32
ALBERTA PROVINCE 9 3/8 95	600	102¾	103¼	-⅛	8.63
AUSTRIA 8 1/2 00	400	97⅛	97⅝	-⅛	8.96
BANK OF TOKYO 8 3/8 96	100	96⅞	97⅜	-¼	9.14
BELGIUM 9 1/8 92	400	101⅝	102		8.00
BFCE 7 3/4 97	150	95½	96	-⅛	8.72
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COUNCIL EUROPE 7 94 LFr	600	92¾	93¼		9.76
KREDIETCORP 7 93 LFr	1000	93	94		10.20
WORLD BANK 8 96 LFr	1000	93¾	94⅛		9.71
AMRO BANK 6 1/4 92 Fl	150	94⅝	95⅛	-⅛	10.03
RABOBANK 5 3/4 93 Fl	150	92⅛	93		9.95
ALBERTA PROVINCE 10 92 C$	500	98¼	98⅝		11.23
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Continued on Page 41

INTERNATIONAL CAPITAL MARKETS

Treasuries lift on bargain buying and rumour of hope

By Patrick Harverson in New York and Tracy Corrigan in London

AFTER the failure of the UN secretary-general's peace mission to Baghdad over the weekend had initially driven bond prices sharply lower yesterday, optimism for a negotiated settlement and bargain buying helped prices recover late in the session.

In late trading, the benchmark 30-year Treasury bond was down just 1/8 at 104 5/8, yielding 8.367 per cent. The long bond had started the session over a point lower after heavy selling on overseas markets.

At the short end of the market prices were virtually unchanged, with the two-year issue trading at 100¼, to yield 7.126 per cent. Volume was light, with many players reluctant to run large positions as the UN deadline for an Iraqi withdrawal from Kuwait approaches.

Although early yesterday the market appeared resigned to war in the Gulf, it seized on

GOVERNMENT BONDS

reports that Iraq might be willing to withdraw from Kuwait so long as the Allies did not set a strict deadline for such a move. These reports, which were unconfirmed, triggered a revival in prices, which at one stage had been ¾ of a point lower at the long end.

The relative steadiness of short-term issues yesterday ensured the recent trend towards a steeper yield curve was maintained. As the threat of war has grown, investors have moved into lower-risk short-term bonds as part of a general flight to safety. "People are selling long and buying short," said Mr Robert Brusca, chief economist at Nikko Securities. Some analysts are predicting the yield on the long bond could reach 9 per cent if a Gulf war seriously disrupts oil supplies.

The market has not forgotten US economic fundamentals. Analysts are looking for further easing by the Federal Reserve to bolster economic activity. Yesterday the Fed arranged $2bn in customer repurchase agreements when Fed funds were trading at 6¾ per cent, an indication that the authorities do not want the Fed funds rate to rise above its recently-set target of 6¾ per cent.

■ GERMAN bonds outperformed most other European bond markets yesterday, recovering from the day's lows to end only ½ point down.

"No one wants to lose bonds at 9 per cent. That is still where German institutions buy," said Mr Alex Monnas, head of trading at Daiwa Europe. He added there is no imminent supply of paper to depress the market, as there was last month.

■ MEANWHILE, the UK gilts market fell nearly a point, even though sterling was firmer, which helped support short-dated gilts, and the short-sterling contract on the London International Financial Futures Exchange (Liffe).

The 10-year futures contract on Liffe closed at 89.09, down less than a point.

■ IN the Japanese government bond market, prices slipped further in London, after weakening in Tokyo. European traders appear to be adopting a more pessimistic stance than their counterparts in Japan.

According to Mr Gerard Lyons, chief economist at DKB International, traders in Tokyo think the market is well underpinned, while European traders are concerned about the Bank of Japan tightening rates and the yen's vulnerability to the dollar.

The yield on the 119 benchmark rose to 6.95 per cent, up 5 basis points from Tokyo's opening level, and 2½ basis points from Tokyo's close.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	09/92	102-27	-04/32	11.56	11.34	11.38
	9.000	03/00	90-27	-22/32	10.58	10.55	10.56
	9.000	10/08	88-30	-30/32	10.23	10.11	10.15
US TREASURY *	8.500	11/00	102-03	-1/32	8.18	8.02	7.93
	8.750	08/20	104-02	-5/32	8.37	8.20	8.08
JAPAN No 119	4.800	06/99	88.8137	-0.636	6.94	6.90	7.30
No 129	6.400	03/00	96.6080	-0.506	6.64	6.65	6.74
GERMANY	9.000	10/00	99.8600	-0.380	9.01	9.00	8.88
FRANCE BTAN	9.000	11/95	95.0495	-0.263	10.33	10.25	10.15
OAT	8.500	03/00	91.1100	-0.600	10.01	9.88	9.83
CANADA *	10.500	03/01	101.4500	-0.350	10.26	10.11	10.08
NETHERLANDS	9.250	11/00	98.7900	-0.226	9.25	9.24	8.85
AUSTRALIA	13.000	07/00	103.9739	-0.371	12.28	12.13	11.89
BELGIUM	10.000	08/00	98.8500	-0.500	10.01	9.72	9.64

London closing, *denotes New York closing. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

DTB opts not to raise margins on contracts

By Katharine Campbell in Frankfurt

THE Deutsche Terminbörse, the German electronic derivatives exchange, will not raise margins on its contracts ahead of a possible war in the Gulf.

Unlike London's Liffe, which has announced hefty increases in margins from today, the DTB, which now trades a rival instrument to London's German government bond future, sees no reason to alter policy on protection against the adverse effects of sudden volatility swings. "Who can say that the Iraqi crisis is worth an extra 25 per cent on margins?" the DTB said.

Margins on the London bund will go up 25 per cent, much less than the 50 per cent prescribed for most other contracts.

Liffe and DTB had agreed informally not to compete against each other on the ability to offer lower margins and hence cheaper transaction costs; both exchanges see adequate downpayments as central to the security of their markets.

But the DTB yesterday denied that current policy differences had anything to do with competition. "Liffe did not tell us about their change, nor do we think the different margin requirements will have any effect on turnover."

Tracy Corrigan adds: The Matif, the French futures exchange, is raising margins, citing "the current international situation and the uncertainty facing financial markets." From today, the minimum margin on the notional French government bond contract will rise from FFr25,000 to FFr30,000. The limit on the contract's daily movement is increased to 300 basis points.

The minimum margin on the CAC-40 stock index futures contract has also been lifted from FFr30,000 to FFr35,000, but the limit is unchanged at 120 basis points. The Matif underlined the temporary nature of the margin increases, which will be lowered again once market conditions stabilise. However, it reserved the right to make further changes.

Political pressure on Canada banks

By Bernard Simon in Toronto

CANADA'S banks, which are generally in far better financial shape than their US counterparts, are concerned at growing political pressures to relax their lending criteria as a means of helping customers through the recession.

A number of prominent politicians have recently called on the banks to play a more active role in softening the impact of what is turning out to be an unexpectedly steep decline in the domestic economy.

Ms Helen Sinclair, president of the Canadian Bankers Association, said the banks were increasingly under pressure to "give customers a break beyond what is appropriate".

The premier of Ontario, Mr Bob Rae, late last week urged financial institutions to be more sympathetic towards troubled debtors.

Mr Rae, who heads Canada's only social-democratic provincial government, said that "where it makes sense to restructure, and where it makes sense to forgive because the fundamentals of the business are sound, that's what people should be doing".

Earlier, a federal cabinet minister called on banks "to be a little more charitable and equitable" in dealing with troubled customers in the depressed Atlantic provinces.

Recent problems among Canadian deposit-taking institutions have so far been largely confined to a handful of trust companies which are more heavily exposed than the banks to the ailing property market.

The Canadian banks have generally been more cautious than their US counterparts,

Bob Rae: urged sympathy to troubled debtors

partly as a result of lessons learned when they burnt their fingers in the energy crunch of the early 1980s, and partly because of tighter regulatory supervision since the collapse of several regional Canadian banks in 1985-86.

Ms Sinclair said that "through the 80s we passed up on a lot of the racier activity. "There's a feeling that the adherence to sound banking principles has been seen to pay off".

Nonetheless, the deteriorating business climate has significantly pushed up loan losses and non-performing loans of the six leading banks in the past year.

National Bank of Canada, the smallest of the six and the one which has taken the hardest knocks in recent months, posted a return on equity of only 2.4 per cent in the three months to October 31, down from 18.9 per cent in the first quarter of fiscal 1990.

New issues on hold as borrowers await more stable conditions

By Simon London

NEW ISSUE activity ground to a halt yesterday as syndicate managers advised the developing queue of borrowers to wait for the uncertainty surrounding the Gulf crisis to subside.

In the secondary market, some dealers reported trading of seasoned Eurodollar bonds as investors sought refuge in both liquid deals and the "safe haven" of the dollar.

If the atmosphere of tension and uncertainty is dispelled, a number of high-profile borrowers are expected to launch issues.

Substantial Ecu deals from the Belgian and UK governments are expected as soon as market conditions are right. Supranational and agency borrowers are also waiting in the wings.

The Czechoslovak central bank, Statni Banka, is hoping to tap the Eurodollar bond market in a few weeks time, via Nomura International.

The issue is likely to total between $200m and $500m, depending on the amount of loans forthcoming from the international lending agencies.

The proceeds will be used mainly for foreign currency reserves. An option allowing bonds to be distributed in the US private placement market, through rule 144A, may be incorporated.

Other than the Gulf crisis, potential investors in eastern Europe have been unnerved by recent Soviet action in Lithuania.

INTERNATIONAL BONDS

There are fears that a deterioration in east-west relations could damage prospects for economic reconstruction in Czechoslovakia and other former Soviet bloc states.

The bank would not be the first Czech issuer to tap the international market since the revolution late in 1989.

Last year, Ceskoslovensko Obchodni Banka launched two D-Mark-denominated Eurobonds last year, one for DM250m via Commerzbank in July and a DM350m via Deutsche Bank in September. Both carried five-year maturities.

Other east European borrowers to have issued in the international bond market include the National Bank of Hungary, which issued heavily in D-Marks over the past five years.

The Hungarian State Development Institute launched a $200m deal last August, lead-managed by Daiwa Europe.

If a deal can be done for Statni Banka, market participants do not expect the paper is to trade widely, with most of the paper likely to be held until maturity by international bank buyers.

One syndicate manager said that Czech central bank paper might be compared with dollar issues by Mexico, although Czechoslovakia's foreign debt burden one of the lightest in east Europe.

● Republic of Austria yesterday launched Sch2bn of paper maturing February 1994.

The three-year, floating rate bonds pay 0.125 per cent below the three-month London interbank offered rate for Austrian schilling deposits.

The issue was lead-managed by Raiffeisen Zentralbank Osterreich in Austria with an international tranche managed by Morgan Stanley.

News Corp hit by fears over debt

By Kevin Brown in Sydney and Stephen Fidler in London

INVESTOR fears about News Corporation's US$7.4bn debt restructuring continued to hit its shares yesterday.

News Corporation shares fell 68 cents to A$4.30 on the Australian stock exchange. Shares in News International, Mr Murdoch's London-listed company, were unchanged at 102p.

In afternoon trading in the US, News Corporation's American depositary receipts had fallen $1⅛ to $6⅝.

News Corporation's leading bankers said yesterday the restructuring, which includes a new loan of US$600m, continued to progress. Two European banks have said, however, they do not want to provide funds.

Most Australian sellers appeared to be small shareholders selling up to 5,000 shares. Analysts said investor fears were unlikely to be calmed until the company is able to announce the successful completion of its restructuring agreement. Its bankers hope this will be possible by the end of the month.

Fisons given top rating by Moody's

FISONS, the UK pharmaceuticals and chemicals group, has been given a top Prime-1 rating for its Eurocommercial paper programme from Moody's Investors Service, the US rating agency, writes Simon London.

Fisons' existing commercial paper programme, set up under its subsidiary Fisons Finance Netherlands, is being terminated, and will be replaced by a new programme under the parent company name.

Moody's commented that it expected Fisons to "extend a highly favourable long-term record of rising earnings and cash flow". It added that Fisons is expected to "continue its conservative financial policies and thereby maintain strong debt-protection measurements".

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Jan 14 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Fri Jan 11 Index No.	Thu Jan 10 Index No.	Wed Jan 9 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (188)	689.14	-1.3	15.42	6.90	7.91	0.14	698.24	702.04	710.63	927.38
2	Building Materials (25)	935.11	-1.4	15.39	6.53	8.00	0.00	948.75	950.77	967.74	1145.19
3	Contracting, Construction (31)	1067.31	-1.2	17.24	7.37	7.54	0.00	1079.75	1080.79	1089.94	1563.74
4	Electricals (10)	1892.43	+0.2	14.86	7.05	8.23	0.00	1887.76	1894.24	1895.15	2632.99
5	Electronics (26)	1488.57	-0.7	10.75	5.78	12.40	0.00	1499.56	1515.32	1524.99	1963.37
6	Engineering-Aerospace (8)	382.38	-1.4	17.56	6.39	6.84	0.82	387.69	391.35	400.67	471.81
7	Engineering-General (47)	351.45	-1.1	16.62	7.30	7.26	0.16	355.30	356.41	361.69	492.48
8	Metals and Metal Forming (8)	392.39	-1.2	23.28	8.77	5.30	0.00	397.10	397.49	400.26	480.29
9	Motors (13)	274.80	-1.0	18.15	8.75	6.42	0.00	277.61	282.40	287.71	388.47
10	Other Industrial Materials (20)	1184.63	-2.1	14.23	6.85	8.12	0.00	1209.72	1208.52	1228.21	1714.40
21	CONSUMER GROUP (181)	1201.04	-1.3	10.18	4.34	12.19	1.52	1216.79	1212.76	1224.58	1313.69
22	Brewers and Distillers (22)	1556.60	-1.9	10.42	4.00	11.82	7.47	1586.44	1586.97	1604.57	1541.34
25	Food Manufacturing (20)	1022.38	-0.8	11.29	4.85	10.93	1.66	1031.05	1033.13	1042.98	1140.04
26	Food Retailing (16)	2275.26	-0.6	9.74	3.31	13.41	0.00	2288.01	2267.53	2286.32	2281.00
27	Health and Household (20)	2472.09	-1.2	7.27	3.10	16.30	0.30	2501.98	2476.16	2493.07	2652.28
29	Hotels and Leisure (22)	1151.22	-1.8	12.11	5.92	9.74	0.00	1172.65	1170.67	1185.95	1658.27
30	Media (25)	1190.15	-1.4	12.60	5.72	9.99	0.89	1206.44	1205.74	1221.78	0.00
31	Packaging & Paper (11)	500.58	-2.9	10.60	6.86	11.58	0.00	515.62	514.68	517.66	590.08
34	Stores (34)	781.69	-1.1	10.88	4.67	11.96	0.23	790.09	789.17	798.21	797.23
35	Textiles (11)	401.04	-1.3	14.36	8.76	8.93	0.00	406.51	407.67	407.75	535.30
40	OTHER GROUPS (111)	972.14	-1.1	13.27	6.15	9.10	1.48	982.88	989.51	998.24	1196.67
41	Business Services (12)	977.64	-1.6	12.81	5.51	9.29	0.00	993.35	995.32	1004.01	0.00
42	Chemicals (22)	1023.67	-0.9	13.79	6.92	8.56	0.17	1033.37	1031.10	1038.31	1247.90
43	Conglomerates (11)	1223.16	-1.5	14.12	8.33	8.41	0.11	1241.25	1235.49	1250.50	1676.60
44	Transport (15)	1818.43	-1.4	14.25	5.59	8.67	0.00	1844.75	1851.86	1879.24	2351.99
45	Electricity (12)	995.27	-0.2	12.39	7.07	9.74	0.00	997.08	998.69	1005.35	0.00
46	Telephone Networks (3)	1103.48	....	12.12	4.58	10.73	0.00	1103.93	1129.18	1137.80	1219.29
47	Water (10)	2138.32	-2.9	15.80	6.55	7.08	39.69	2201.09	2197.71	2200.60	1958.88
48	Miscellaneous (26)	1514.28	-1.8	12.59	6.04	9.24	0.17	1542.00	1554.66	1570.96	1940.96
49	INDUSTRIAL GROUP (480)	1004.78	-1.2	12.23	5.43	10.01	1.13	1017.33	1018.68	1029.15	1196.14
51	Oil & Gas (20)	2237.84	....	10.00	5.70	13.06	0.00	2236.58	2226.39	2239.25	2348.59
59	500 SHARE INDEX (500)	1106.19	-1.0	11.90	5.47	10.37	1.06	1117.86	1118.38	1129.14	1292.92
61	FINANCIAL GROUP (98)	676.17	-2.0	-	7.05	-	0.20	690.17	695.57	701.24	839.03
62	Banks (9)	705.38	-2.6	22.58	8.24	5.79	0.00	724.49	738.09	746.05	874.21
65	Insurance (Life) (7)	1242.10	-1.5	-	6.18	-	0.00	1260.96	1260.68	1266.60	1394.32
66	Insurance (Composite) (6)	589.36	-2.1	-	7.26	-	0.00	602.30	600.16	608.14	709.40
67	Insurance (Brokers) (8)	967.63	-2.1	7.61	6.66	17.21	0.00	988.43	982.44	988.06	1138.96
68	Merchant Banks (7)	333.26	-2.4	5.85	6.17	22.81	0.00	341.52	343.94	346.29	485.64
69	Property (41)	929.48	-0.9	7.34	5.08	18.49	0.23	938.00	943.31	942.72	1203.62
70	Other Financial (20)	239.67	-1.9	11.38	7.55	11.09	1.21	244.32	245.69	248.81	341.87
71	Investment Trusts (69)	955.35	-1.4	-	4.26	-	0.44	968.80	971.97	983.96	1258.31
99	ALL-SHARE INDEX (667)	1000.17	-1.2	-	5.66	-	0.85	1012.23	1013.81	1023.43	1184.17

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Year ago
FT-SE 100 SHARE INDEX‡	2080.8	-25.3	2102.4	2071.8	2106.1	2108.7	2128.9	2099.9	2113.3	2366.2

FIXED INTEREST

	PRICE INDICES	Mon Jan 14	Day's change %	Fri Jan 11	Accrued interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (27)	119.12	-0.21	119.49	2.06	0.12
2	5-15 years (32)	128.40	-0.62	129.20	2.74	0.00
3	Over 15 years (8)	134.83	-0.85	135.98	2.43	0.00
4	Irredeemables (6)	148.55	-0.90	149.89	1.80	0.00
5	All stocks (73)	127.63	-0.51	128.33	2.51	0.04
	Index-Linked					
6	Up to 5 years (2)	158.48	+0.21	158.15	0.85	0.00
7	Over 5 years (10)	144.03	....	144.03	0.64	0.23
8	All stocks (12)	145.00	+0.02	144.97	0.66	0.21
9	Debs & Loans (54)	104.44	+0.19	104.35	2.32	0.10

	AVERAGE GROSS REDEMPTION YIELDS		Mon Jan 14	Fri Jan 11	Year ago (approx.)
	British Government				
1	Low	5 years	10.02	9.96	10.44
2	Coupons	15 years	10.11	10.00	10.06
3	(0%-7¾%)	25 years	10.18	10.04	9.95
4	Medium	5 years	10.92	10.80	11.61
5	Coupons	15 years	10.50	10.39	10.41
6	(8%-10¾%)	25 years	10.33	10.23	10.02
7	High	5 years	11.05	10.93	11.74
8	Coupons	15 years	10.68	10.57	10.59
9	(11%-)	25 years	10.48	10.37	10.13
10	Irredeemables	†	10.32	10.22	9.97
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.81	3.91	3.97
12	Inflation rate 5%	Over 5 yrs.	4.18	4.18	3.67
13	Inflation rate 10%	Up to 5 yrs.	2.56	2.65	3.13
14	Inflation rate 10%	Over 5 yrs.	4.01	4.00	3.51
15	Debs & Loans	5 years	12.55	12.52	13.01
16		15 years	12.34	12.32	12.29
17		25 years	12.13	12.12	12.28

‡Opening index 2101.4; 9 am 2095.8; 10 am 2094.1; 11 am 2081.9; Noon 2080.0; 1 pm 2080.2; 2 pm 2073.2; 2.30 pm 2073.5; 3 pm 2073.7; 4.10 pm 2081.3; (a) 8.41am (b) 2.14pm † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE includes details of the information used in the construction of these indices. These are available by subscription from FINSTAT, 071-925 2323.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	9	70	6
Corporations, Dominion and Foreign Bonds	0	7	14
Industrials	172	674	720
Financial and Properties	92	309	347
Oils	33	25	34
Plantations	1	0	9
Mines	64	20	78
Others	62	54	46
Totals	433	1,159	1,254

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1990/91 High	1990/91 Low	Stock	Closing Price p	+or-	Net Div.	Times Cov'd	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1990/91 High	1990/91 Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990/91 High	1990/91 Low	Stock	Closing Price p	+or-
190	[illegible]	-	[illegible]	[illegible]	London Intl. Group	[illegible]	[illegible]
14	Nil	-	1pm	½pm	New London 5p	½pm	-½

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. o Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ψ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ‡ Unlisted securities market. * Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

TRADITIONAL OPTIONS

● First Dealings Jan. 7
● Last Dealings Jan. 18
● Last Declarations Apr. 11
● For settlement Apr. 22

For rate indications see end of London Share Service

Calls: Beazer, Blacks Lets., Brent Walker, Conroy, Marley, Next, Premier, Standard Chartered, Tuskar, Trimoco. Puts: Airtours, Cowie(T.), News Corp., Owners Abroad, Ratners.

LONDON TRADED OPTIONS

THE IMMINENT threat of war in the Gulf tempted some investors into the traded options market yesterday to hedge themselves against any possible decline in share prices. Equity futures were also actively traded but, for once, options attracted the most attention.

Turnover swelled in FT-SE index options as investors closed January positions almost two weeks early in case of any conflict in the Middle East.

The possibility of a stock market recovery later in the year also tempted some buying of longer-dated calls and sellers of longer-dated puts.

Among the more popular trades there were signs of investors rolling June index option positions into December, particularly the June 2,100 puts. Others moved in the opposite direction, selling February 2,100 puts for January 2,150's.

The Euro FT-SE was busy with dealing boosted by Barclays de Zoete Wedd's purchase of January 2,075 puts and sale of 2,025 and 1,925 puts. The trade amounted to 1,200 lots.

The day's total 38,552-lot turnover was nearly double that of the previous session. In stock options, activity was lifted by an unexpected rise in UK retail sales. Boots traded 1,953 contracts with the January 330 calls featuring, while 1,642 Kingfisher changed hands, particularly the January 360 calls.

Stock index futures were also busier and led the cash market lower during the first half of the day. The decision to increase margin requirements in order to avoid wide fluctuations in the event of a Gulf war was welcomed by many dealers. The move was unlikely to discourage larger investors, although some of the smaller independent traders and private investors may be less active, said Mr Harvey Neale of UBS Phillips & Drew.

The March FT-SE 100 index finished 42 points lower at 2,115. March's premium to the cash index ended at 34 points, compared with brokers' 27-point estimate of fair value.

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Alld Lyons (*475)	460	20	44	53	5½	16	25
	500	2½	22	33	29	37	45
	550	1	10	-	78	78	-
ASDA (*120)	110	11	17	21	1	5	7
	120	4	11	16	3	10	13
	130	1	6½	11	11	16	19
Brit. Airways (*140)	130	13	19	22	3	5½	9½
	140	5	14	16	7	10½	16
	160	1½	5½	8	23	23	28
SmKl Beecham A (*592)	550	44	66	83	1½	13	19
	600	8	36	53	17	32	38
	650	1	17	32	60	65	68
Boots (*322)	300	24	40	46	2	9½	14
	330	4	21	27	12	20	25
	360	1	8	16	40	40	42
B.P. (*325)	300	26	36	44	1½	8	11
	330	6½	18	26	12	20	22
	360	2½	8	15	37	38	41

Option		Calls Jan	Calls Apr	Calls Jul	Puts Jan	Puts Apr	Puts Jul
Unilever (*663)	650	20	45	60	8	27	33
	700	3	22	35	44	56	62
Ultramar (*319)	300	22	33	45	4	11	16
	330	4	17	28	16	24	26

Option		Calls Jan	Calls Mar	Calls May	Puts Jan	Puts Mar	Puts May
Elec. Pwr. (*£1455)	1450	45	110	150	40	70	90
	1500	25	80	120	70	100	110
Eastern Elec (*136)	130	8	13	17	2½	4	6
	140	2½	7	12	7	9	12
Southern Elec (*141)	140	5½	11	16	5	7	10
	160	1½	4	7	20	21	22

Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Brit Aero (*528)	500	42	57	70	10	24	30
	550	15	27	45	32	47	55
BAA (*375)	360	30	48	55	9	15	22
	390	13	30	38	22	27	33
BAT Inds	550	37	55	73	10	23	30

Option		Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
Amstrad (*63)	60	7½	12	13½	5	6½	8
	70	3½	6½	9	12	13	14
Barclays (*334)	330	22	28	36	21	23	30
	360	9	16	23	42	43	48
Blue Circle (*200)	200	15	20	24	11	19	35
	220	6	11	16	25	32	35
British Gas (*226)	220	14	22	25	8½	10½	14
	240	6½	12	14	19	22	24
Dixons (*138)	130	15	22	23	6	8	11
	140	10	16	18	9	14	16
Glaxo (*834)	800	64	95	119	20	30	38
	850	34	65	89	44	53	62
Hawker Sidd. (*424)	420	35	47	55	20	35	37
	460	17	28	37	43	60	63
Hillsdown (*238)	220	28	33	40	5	9	11
	240	15	20	29	12	18	20
Lonrho (*204)	200	12	18	22	16	19	22
	220	5	11	15	32	32	37

Option	
Bass (*1024)	[illegible]
C & Wire (*443)	[illegible]
Courtaulds (*308)	[illegible]
Com. Union (*450)	[illegible]
GKN (*318)	[illegible]
Grand Met. (*644)	[illegible]
I.C.I. (*869)	[illegible]
Kingfisher (*361)	[illegible]
Ladbroke (*225)	[illegible]
Land Secur (*515)	[illegible]
M & S (*227)	[illegible]
STC (*321)	[illegible]
Sainsbury (*307)	[illegible]
Shell Trans. (*442)	[illegible]
Storehouse (*98)	[illegible]
Trafalgar (*196)	[illegible]
Utd Biscuits (*322)	[illegible]
Midland Bk	[illegible]
P. & O.	[illegible]
Prudential	[illegible]
RTZ	[illegible]
Scot. & New	[illegible]
Tesco	[illegible]
Thames Water	[illegible]
Vaal Reefs	[illegible]
Wellcome	[illegible]
EURO FT-SE INDEX	[illegible]
FT-SE INDEX	[illegible]

January 14 Total Contracts 38,552 Calls 23,587 Puts 15,185 FT-SE Index Calls 2,454 Puts 11,963 Euro FT-SE Calls 486 Puts 1,723 *Underlying security price. † Long dated expiry months

Philips helps new owner avoid recessionary trend in UK and US

Tomkins advances 34% to £31.2m

By Richard Gourlay

TAXABLE PROFITS at Tomkins, the mini-conglomerate with interests which lawnmowers, valves and handguns, increased 34 per cent from £23.34m to £31.19m in the six months to November 3, as its diversified businesses appear to have avoided the beginning of recession in the UK and the US.

The profit figure included a rise to £2.64m (£552,000) in interest earnings. Net cash jumped from zero to £40m, helped by strong cash generation from profits, tighter working capital control and a £13.5m windfall on currency gains that followed a £340m rights issue to finance August's $550m purchase of Philips Industries, the US industrial group.

The results included less than three months of Philips results, yet turnover leapt more than £100m to £390.75m.

Fully diluted earnings rose 8 per cent to 8.21p per share, and the interim dividend was lifted 17 per cent to 2.8p (2.4p).

Mr Gregory Hutchings, chief executive, said the results demonstrated the benefit of being broadly based when conditions were tough in some markets.

Two thirds of Tomkins' sales are now in the US following the acquisition of Philips and the 1988 purchase of Murray Ohio, the US lawnmower and bicycle business.

Philips – involved in air conditioning, materials handling, making baths, mobile home windows and transportation, had sales of £95.66m and trading profits of £5.2m.

Until 1988, Philips featured highly in the Fortune 500 list of best performing stocks, but lost control of its working capital. The process of correcting this would provide Tomkins with a couple of years of good profits growth, Mr Ian Duncan, finance director, said.

The balance of the Tomkins businesses produced trading profits up £1m at £21m, from sales that rose £4.9m to £295m.

Mr Hutchings said the increase in margins to 7.12 (6.92) per cent demonstrated the success of not seeking sales for their own sake and of keeping a close eye on creditworthiness of customers.

Within the pre-Philips figures, Murray Ohio traded particularly well, benefiting from people who were trading down to the cheaper super-stores which it supplies.

The fluid controls division, which includes the supply of valves to commercial and industrial markets, was satisfactory and profits had benefited from cost reductions.

The services to industry division faced difficult conditions in the fastener distribution market and in specialised motor component distribution.

See Lex

Alan Harper

Gregory Hutchings: successful strategy of keeping a close eye on the creditworthiness of customers

Allied-Lyons chiefs plan to retire during next year

By Philip Rawstorne

SIR DERRICK Holden-Brown, chairman of Allied-Lyons, the drinks and food group, and Mr Richard Martin, its chief executive, are to retire next year. The two men joined the company in the mid-1950s.

Sir Derrick, 67, who has been chairman for nine years and a director since 1967, is to be succeeded by Mr Michael Jackaman, 55, a group vice-chairman, in July 1992.

This March Mr Jackaman will relinquish his present position as chairman and chief executive of Hiram Walker-Allied Vintners, the wines and spirits division, to devote more time to group affairs.

Mr Martin, 58, a group vice-chairman and chief executive for the past two years, is to retire from executive responsibilities in October 1992. But in the meantime, he will also head the HW-AV operations.

Mr Martin's successor as group chief executive has yet to be chosen. It is unlikely that Mr Jackaman will combine the roles of chairman and chief executive.

Two front-runners for the chief executive's post are Mr Cliff Hatch, 48, Canadian finance director, and Mr Tony Hales, 41, chief executive of the J Lyons food operations, who now also takes over the chairmanship of that division from Mr Martin.

Mr Jackaman joined Allied in 1963. He was appointed chairman of Allied Vintners in 1983, and three years later with the £1.3bn acquisition of Hiram Walker became chairman and chief executive of Hiram Walker-Allied Vintners.

Great Portland ceases to capitalise interest costs

GREAT PORTLAND Estates, one of the largest property investment and development companies, yesterday announced that it would cease to capitalise interest costs, writes Vanessa Houlder.

The move, which stems from the poor state of the letting market, has the effect of reducing last year's profit before tax by 12 per cent.

The change gives the company an unusually conservative accounting policy.

Until yesterday's decision, Land Securities, the largest UK property group, was virtually the only UK property company that did not capitalise interest charges.

Great Portland, which adopted the practice of capitalising interest three years ago, said that the policy was valid when confidence about lettings was high but was inappropriate in the current market.

Mr Richard Peskin, chairman and managing director of Great Portland, said: "I believe that in today's uncertain climate it is imperative that shareholders are provided with a clear and unfettered indication of the group's performance, and charging interest in full against the profits for the year helps to achieve that aim."

Great Portland stressed that the change would not affect its dividend policy, which remains based on net cash flow.

The company has restated its pre-tax profit as follows (figures calculated from former accounting policy in brackets): year to March 31 1989 £25.62m (£29.36m); year to March 31 1990 £31.53m (£35.96m).

Bankruptcy threat hanging over Nadir

By Richard Waters and John Murray Brown

ASIL NADIR, chairman of Polly Peck International, faces the threat of bankruptcy today amid signs that he has so far failed to meet conditions laid down by his creditors a month ago.

Four stockbroking firms, owed over £50m by Mr Nadir, were promised an initial payment of a part of the amount before the bankruptcy petition against Mr Nadir goes back before the High Court this morning.

In addition, Mr Nadir had promised through his lawyers to give the brokers – Barclays de Zoete Wedd, Lehman Brothers International, Merril Lynch and Carr Kitcat & Aitken – charges over his assets sufficient to meet the amounts still outstanding to them.

However, as of last night neither of these conditions had been met, and although there is still time before this morning's hearing, creditors were not optimistic.

They have held off making Mr Nadir bankrupt up till now for fear that this would leave them with no chance of recovering any of their money. One creditor said it still believed this was the right approach, although others appeared less patient.

Meanwhile, the administrators of Polly Peck are preparing to return to northern Cyprus to fight a new injunction aimed at blocking their entry to the group's subsidiaries on the island.

Mr Richard Stone, one of three administrators, warned that interruption to airline services due to the crisis in the Gulf could delay matters.

The administrators have been attempting to put their own appointees onto the board of Unipac, the Cypriot company through which the businesses on the island are owned, since last November.

This is being obstructed by directors of Unipac, two of whom, Mr Mentes Aziz and Mr Fahri Tunalier, last week gained an injunction blocking the move. The two were formerly directors of the intermediate holding company through which the northern Cypriot operations are owned, Voyager Ltd of the Isle of Man, before being ejected by the administrators.

Chloride pulls plug on battery side with disposal to Hawker

By Andrew Bolger

CHLORIDE GROUP, one of the worst performing shares of the eighties, yesterday announced plans to sell most of its formerly core battery business for £57m cash.

Mr Ray Horrocks, chairman, said that after a strategic review it had been decided to focus the slimmed-down group on its electronics business. Having disposed of all but a few of its battery operations, Chloride would be virtually debt-free.

Hawker Siddeley, the engineering group, has agreed to pay £43.5m cash for Chloride's industrial batteries division, which manufactures its products in Manchester and employs about 600 people.

The division makes batteries for telephone exchanges, computers and hospitals. It also supplies batteries for submarines, torpedoes, tanks and aircraft.

Mr Alan Watkins, chief executive of Hawker said: "The European market for industrial batteries offers good returns with prospects of growth in the longer term.

"The combination of the Chloride and Hawker industrial battery manufacturing activities, together with their complementary distribution networks in Europe, will help Hawker defend its competitive position in the UK against large continental manufacturers and promote Hawker's batteries operations as a market leader in the single European market."

Chloride has also agreed to sell its 76 per cent stake in Chloride Eastern Industries Ltd (CEIL) for £14m cash to Tech Trade (Singapore), in conjunction with a group of other investors.

CEIL, formed in 1987, brought together Chloride's interests in south-east Asia and the Indian sub-continent, its principal products being automotive and industrial batteries. An alliance was also formed with the India-based Birla family for its management.

Following these disposals, which are subject to shareholder approval, Chloride's new core activity will be electronics.

This business comprises the design and manufacture of products in three main areas: power electronics (mainly uninterruptible power supplies); power supplies (including military magnetics, power amplifier products); and emergency lighting.

Mr Horrocks said initial management action to cut costs, introduce new products and integrate acquisitions had brought electronics into significant profit for the first time last year. This improvement had been sustained in the first half of the current year, although the adverse economic climate was was affecting performance in the second half.

Chloride is currently unable to pay a dividend because of a lack of distributable reserves. Mr Horrocks said that following the disposals, there would be a capital reduction which would enable dividends to be paid out of future income.

In addition to the proposed sale of its industrial batteries division, Chloride has sold Chloride Ferrostatics, its small UK engineering subsidiary, to BCH Equipment, which has similar interests in the area.

Chloride shares rose 1p to 17p, giving the company a total market capitalisation of £40.5m.

See Lex

Bad debt problems ease at London Electricity

By Clare Pearson

LONDON Electricity's bad debt problem, highlighted in last November's flotation prospectus, had eased over the past few months, Mr Roger Urwin, managing director, said yesterday announcing the company's results for the six months to the end of September.

In the year to end-March 1990, bad debts cost the company between £5m and £6m. When the prospectus was drafted, it was feared that the financial impact could have been much greater after a rise, during the first five months, both in bad debts and the average number of days bills were left outstanding.

But Mr Urwin said the company was now expecting the full-year cost to be between £6m and £7m. More widespread installation of pre-payment meters was helping to ease customers' payment problems.

He was speaking as London announced interim historical cost pre-tax profits of £23.4m, on turnover of £517.4m. Current cost pre-tax profits were £1.1m.

On a pro forma basis, assuming the post-flotation capital structure had been in place for the full six months, the company would have reported historical post-tax profits of £1.6m and earnings per share 0.7p.

Mr Urwin said he was confident of meeting prospectus profit and dividend forecasts. A steady growth rate of about 2 per cent during the first nine months in sales by the core distribution business underpinned this confidence.

As expected, retailing had continued in loss so far during this year, the first in a planned three-year "recovery" programme.

Sale Tilney warns of rising losses

By Andrew Bolger

Shares in Sale Tilney yesterday closed 2p lower at 28p after the food, technology, insurance and financial services group warned that its interim pre-tax loss of £3.9m would increase *significantly* for the year as a whole.

The company said it would make additional one-off provisions in the 1990 accounts, principally against stocks and debtors in its food division.

There had also been exceptional costs associated with reviewing the group's finances and formalising its banking relationships.

Sale Tilney has now signed a facility with its key banks, led by National Westminster, that will run to November 30 1991.

The group said its underlying trading performance improved in the second half.

Continued on Page 31

حكمة من الأكمل

UK COMPANY NEWS

Parkfield sale brings in £11m

By David Owen

THE ADMINISTRATORS of Parkfield Group have completed another disposal, selling the collapsed mini-conglomerate's UK alloy wheels business to AAF Investment for £11m cash.

The deal comes some four months after the pressings and fabrications division was sold to management for £28m. It brings the sum raised to date from the disposal of Parkfield assets to more than £40m.

AAF said the acquisition was in line with its strategy of becoming engaged in basic industries. According to Mr Hilton Schlosberg, deputy chairman, "a new dimension" would be added to the group as a result of the deal.

The company, which is 57.6 per cent owned by the South Africa-based FSI Group, has to date been principally involved in the system and modular building sector. In the six months to June 30 1990 it made taxable profits of £2.01m on turnover of £15.1m.

Of the £11m purchase, AAF is paying £4.5m for stocks and £6.5m for fixed assets – a 42 per cent discount to asset value net of provisions and creditors.

In addition, AAF has an option – exercisable within three months – to buy Parkfield land and buildings at Cardiff for £2.2m. If the option is not taken, the group may be obliged to indemnify Parkfield for any shortfall from a third party sale "up to a maximum of £700,000."

The acquired business – to be renamed Wheels International – is among Europe's top five alloy wheel manufacturers supplying Jaguar, Rover, Ford and others.

Joint Parkfield administrator Mr Adrian Stanway, of Cork Gully, said that 30p in the pound was "not a bad working estimate" of the payout that the group's creditors would eventually receive.

He said that interest in the disposed-of wheel business had been "very very thin." Discussions were in progress with parties interested in Parkfield's castings operations and a Spanish wheel unit.

The Parkfield "video mountain", he said, was still being managed, leaving the administrators with about 7m tapes yet to dispose of.

Excalibur beats rights forecast with £2.1m

RATIONALISATION benefits helped Excalibur Group, the jewellery making and engineering company, to beat the interim profit forecast made with its £8.5m rights issue last November, writes Maggie Urry.

Pre-tax profits for the half-year to end-October were £2.05m compared to a forecast of £2m and £1.7m in the comparable period.

Mr Richard Griffiths, managing director, said the group was pleased with the results and that there were further overhead savings to come, although trading conditions were tough. The shares held steady at 45p, the price at which the 1-for-2 rights issue was made.

Group turnover was 24 per cent up at £30.85m. Mr Stephen Fox, finance director, said that the group had held its gross margins fairly steady, but operating profits rose by 37 per cent because of cost savings. The interest charge was £1.3m (£747,000), reflecting the need for the rights issue, holding the pre-tax increase to 21 per cent.

A rise in the tax rate from 21.3 to 27 per cent dampened earnings per share growth to 12 per cent at 3.7p. As forecast with the rights, the interim dividend is up a third to 0.4p (0.3p).

During the half-year, the group moved its two London-based jewellery businesses to its Park Lane site in Birmingham, bringing significant cost savings.

Also the group had won two important orders, a £2m a year contract to supply spares for obsolete Ford models, and a £1m a year deal to make spares for Renault, replacing the customers' in-house manufacturing.

Mr Griffiths said gearing at the year-end was likely to be about 20 to 30 per cent, and the company had positive cashflow.

● COMMENT

Excalibur's formula of buying assets cheap and sharply cutting overheads should stand it in good stead in the present tougher trading conditions. This, as well as the group's determination to win market share in what are often fragmented industries, should underpin profits growth for the next couple of years. The rights, and the higher tax rate, will hold back earnings per share in the short term. Even so, on a forecast of £5m pre-tax (£4m) and unchanged earnings of 7.7p, the p/e of 5.8 looks mean, though the indigestion from the rights may take a while to clear.

£0.43m disappoints at Fletcher King

TAXABLE PROFITS at Fletcher King, the commercial property agent, fell from £1.31m to £433,000 in the six months to October 31.

However Mr David Fletcher, chairman, said that although the results were disappointing, he regarded them as very satisfactory in such difficult times.

He partly ascribed the company's ability to weather the current economic climate to its wide geographical spread and varied client base, to rigorous cost control and minimal bad debts.

Mr Fletcher also singled out for praise Howards, the construction and project management and quantity surveying subsidiary acquired in 1989. It lifted turnover by 32 per cent and the number of its transactions by 31 per cent.

Group turnover dropped by just over £1m to £3.77m and earnings were down at 3.1p (9.7p) per share.

The interim dividend is reduced from 4.3p to 1.8p.

Reg Vardy pegged back as interest charges bite

By Michiyo Nakamoto

FURTHER SIGNS of weakness in the UK car market came yesterday as Reg Vardy, the multi-franchise motor group, announced a fall in pre-tax profits of 9 per cent, from £2.32m to £2.1m, in the six months to October 30.

The decline came in spite of a 47 per cent rise in turnover from £63.8m to £93.69m reflecting two sizeable acquisitions.

Mr Peter Vardy, chairman, said the fall in pre-tax profits was partly distorted by a property sale in the previous first half. New car sales were disappointing, rising only 4 per cent to £3m.

Profit margins were hurt by higher interest charges, particularly on funding schemes with manufacturers, as new car sales dropped and stocks piled up, in turn raising interest costs – £651,000 against £438,000. However, sales of used cars were fairly strong, with a 39 per cent increase to £2.9m.

The company's presence in the north of England, and its concentration on the retail market, rather than the company fleet business, helped minimise the effects of the UK recession. "The private man has an inflation-protected salary and by-and-large a high amount of disposable income," Mr Vardy said.

Operating profit was static at £2.75m. Earnings per share slumped to 4.58p (6.16p) and the company declared an interim dividend of 1.2p.

The company was well-poised to benefit from a recovery in the economy with the two newly-acquired dealerships contributing more significantly to profits when refurbishments are completed, directors said.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Debenham Tewson & Chinnocks, Empire Stores, Gold Fields of SA, Howden, Lazard Select Inv Trust, ML Holdings, Nobo, Norweb.

Finals- Babcock Prebon, Crown Communications, Eurotherm Intl, Hawtin, Kunick, London & Clydeside, Sheriff, Trillion, Wheway.

FUTURE DATES

Interims-	
Barnato Exploration	Jan. 28
DAB Invs	Jan. 18
Free State Dev & Inv	Jan. 18
Johannesburg Cons Inv	Jan. 30
Finals-	
Elandsrand Gold Mining	Jan. 17
Microgen	Jan. 22

UK COMPANY NEWS

Having to work for bread instead of cake

Times are changing in corporate finance as bid activity falls. Maggie Urry reports

LONG GONE are the times when a number of large hostile takeovers were running at the same time, the days of multi-billion pound junk bond bids, with giants of British industry being bought and sold apparently at the whim of City financiers.

The only hostile bid of any size at present is the £40m offer for Telfos, the locomotive and rolling stock group, launched last week.

"It's no longer an 8am to 10pm working day," said one corporate finance practitioner, talking of the low level of activity in the bids and deals industry.

This dearth of business mean sharp falls in the profits of merchant banks and, the gloomier corporate financiers predict, job losses in the industry and the wider area of corporate advice among lawyers, accountants and public relations firms.

According to the Takeover Panel the average number of completed bids has run at about 250 a year in the last few years. But in the first nine months of the Panel's current year, which runs to the end of March, only 100 bids have gone through. Even if that rate is continued, the total for the year looks like being barely more than half the average.

Many mergers and acquisitions specialists reckon that this is the quietest period for bids since the recession of the early 1980s. The bull market is over. The entrepreneurs who did deals, often issuing highly priced paper to a receptive stockmarket, are in retreat.

Mr Richard Heley, corporate finance director at Hill Samuel, said that the market had the same feel as it did in the 1979-83 period, and especially in 1981-82. Then, as now, stock market confidence was low, making share offers difficult, and companies' managements were more concerned with sorting out their own problems than bidding for someone else.

This time round there are some additional worries. The banks are much more nervous about companies to which they have lent, and the Gulf crisis is reaching a climax as the UN deadline nears.

To add to the City corporate financiers' problems privatisation work for the British government, which has kept many merchant bankers busy in recent years, is tailing off with only the electricity generators and Scottish companies left to be sold, at least until after the next election. Flotations of other companies have dried up.

However, corporate finance experts claim they are not passing their time straightening paper clips or organising ski-ing holidays.

Mr Gerry Grimstone, director in Schroders' corporate finance department, said that in spite of the lack of public mergers and acquisitions (m and a) work, there is sufficient work to keep people late at the office.

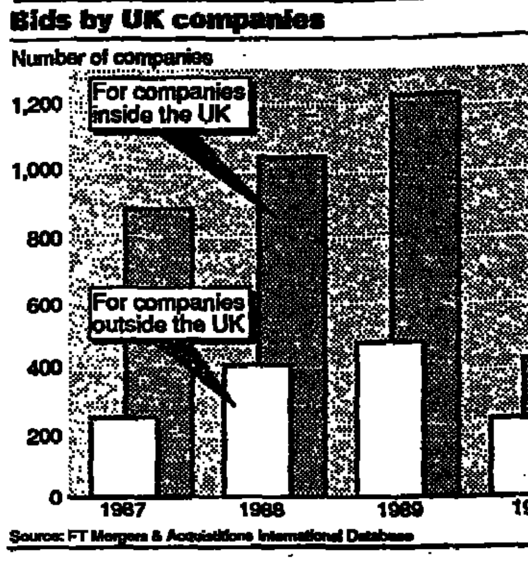
There is still much private m and a work to do. Companies which are trying to cut high debt levels often look to sell subsidiaries. Berisford International's recent sale of its British Sugar business is one example.

However, such deals do not always come to fruition, perhaps if the seller discovers that a high enough price cannot be achieved, meaning corporate finance teams end up putting a lot of work into a sale which does not come off.

Further, there are many cross border alliances being forged. Continental mergers are more usually done on a friendly basis, requiring far more negotiation. As one corporate financier put it "seduction takes longer than rape".

In deals like the Wiggins Teape Appleton/Arjomari-Prioux merger – where the French group ended up with a 39 per cent stake in the combined company – all the work is done before the deal is announced. Here too, bankers can end up doing a lot of work for nothing if a deal does not go through, and it is likely to remain confidential.

Bids by UK companies



Source: FT Mergers & Acquisitions International Database

In a hostile takeover much of the arguing goes on in public, after the initial announcement, so the work being done is more visible.

One area where business for the merchant banks has picked up is in advising clients on refinancing or restructuring.

Brent Walker, the leisure company, has spent several weeks of intense negotiations with its bankers organising rescue refinancing, and there is still more work to be done. Similarly, Isosceles, the company which succeeded with a leveraged buy-out of the Gateway food retail chain in 1989, completed a refinancing package just before Christmas.

As Mr Heley points out, companies do not need to be heavily borrowed to get in trouble with their bank lenders. Cash flow problems abound meaning that companies can quickly breach loan covenants, requiring negotiations. They turn first to their merchant banks for advice.

Mr Callum McCarthy, of BZW Corporate Finance, said that merchant bankers were trying to be a lot more imaginative about building financing structures for companies, although he expected some ordinary rights issues to appear. He added that there were plenty of companies needing to restructure their finances. Recently privatised groups, he suggested, all "have more or less inappropriate capital structures".

There are also plenty of bankers traipsing around eastern Europe trying to pick up business among the emergent economies. The main attraction at present is advising governments on privatisation, although there are also joint ventures being formed.

And whereas in the past m and a specialists used to twiddle their thumbs between deals, now there is much more emphasis on marketing their services in the quieter periods.

Mr John MacArthur, chairman of MacArthur & Co, a small corporate finance house, summed it up by saying "there is a lot of business about". However, he added that much of it was inquiries which may involve work but come to nothing.

While all these types of work can keep the corporate finance teams occupied, life is "certainly nothing like as busy or profitable," as a corporate finance director of a leading merchant bank admitted. It was the mega-deals which brought in the cream, the success fees. "Now we are working for bread not cake." Companies needing a rescue refinancing are not in a position to pay high fees.

The leading merchant banks deny that they will be announcing redundancies, but do say that natural wastage and hiring freezes are likely to mean a reduction in staff in coming months.

Also the quiet period is allowing some weeding out of staff to take place. Said one banker, "At the moment we are bound to look closely at the future potential of people. The fact is that when things are very active you do not have as much time to do that."

Another admitted that his firm was cutting staff, but said that they were people who would have been advised to find another career anyway.

Mr Heley argued that the leading corporate finance houses had not over-expanded in the recent good times, although overheads have inevitably risen. The established houses should have no difficulty covering their costs from their base load of work, because they had good client lists, he said. There was always some demand from companies for advice even if they were not doing mega-deals.

There is more concern for the smaller players, or those which have expanded rapidly recently, perhaps without hiring the experienced practitioners. These firms have been more dependent on picking up ad hoc business and living off success fees.

Mr MacArthur said that his firm, with only 10 staff, had low overheads and a good client list. But he warned that a number of other smaller organisations would be reducing or closing their corporate finance operations.

With no-one prepared to forecast when activity will pick up again, prospects for the corporate finance industry look dull if not bleak.

Acquisitions provide impetus as Ellis & Everard jumps 36%

By Jane Fuller

ACQUISITIONS helped Ellis & Everard, the Bradford-based chemicals distributor in which ICI has a 26.5 per cent stake, to increase pre-tax profit by 36 per cent in the six months to October 31.

The improvement, from £7.8m to £10.6m, was made on sales of £179.8m (£143.2m). Pre-tax profit was enhanced by a reduction of net interest payments to £200,000 (£700,000).

Mr Stephen Bentley, finance director, said gearing fell from 29 per cent to 13 per cent following a 1-for-3 rights issue.

Most of the £29m proceeds were used to make acquisitions, notably HVC and Kramer in the US. Mr Bentley said that with Geekie, a UK company bought a year ago, the newcomers accounted for almost all the profit rise.

Earnings per share increased to 9.8p (9p). The interim dividend is 2.25p (2.2p).

● COMMENT

Although the interim figures were slightly better than expected, the weak start to the second half prompted small downward revisions of full-year forecasts. The good news from the first half was that the UK had seen organic sales growth of 9 per cent and margins had been improved by the increased role of speciality chemicals, such as Geekie's swimming pool products. In the second half, a temporary curb on acquisitive tendencies should enable the management to concentrate on improving US margins, for example by reducing the dependence on bulk chlorine. Pre-tax profit is forecast to rise from £15.4m to £20m, but share issues and a rising tax charge are expected to reduce earnings slightly. A prospective p/e of 9.7, on yesterday's close of 187p, puts Ellis on a 5 per cent discount to the market. Because of its dependence on the ailing UK and US economies, it will be some time before it can recapture a premium rating.

Broad Street suspended as rescue talks proceed

By Maggie Urry

A RESCUE for Broad Street Group, the public relations concern, was in prospect when it asked for its shares to be suspended while it pursued talks which could lead to a bid for the company.

Any offer would only be for "a nominal sum", Broad Street said.

The talks are with Groupe Boulet Dru Dupuy Petit, the French advertising group, which already holds 38 per cent of Broad Street's shares.

The shares, which are quoted on the USM, were suspended at 6p, against the opening price of 7p.

BDDP first bought a 29.9 per cent stake in the company a year ago, paying 42½p per share. It increased its stake when it underwrote a £1.4m rights issue last summer at 18p.

When the rights was announced Broad Street also said there would be a restructuring of the business, which had expanded through the acquisition of the Financial Dynamics and Lynne Franks agencies.

Since then trading conditions have deteriorated further and last month Broad Street announced a sharp fall, from £1.4m to £297,000, in interim pre-tax profits and passed the dividend.

Its net debts were £5.5m.

Broad Street's founder, Mr Brian Basham, holds 6.7m shares.

Cantors improves 52% but warns on second half

By Richard Gourlay

CANTORS, the family controlled furniture company, yesterday reported a 52 per cent increase to £1.45m in pre-tax profits for the six months to October 27.

However, the Sheffield-based company sent a warning to the market not to expect a similar increase in the second half by maintaining the interim dividend at 1p in spite of the increase in earnings per share from 4.53p to 6.89p.

"We are predominantly northern based and serving the blue collar workers who were receiving 8-9 per cent pay increases during the period," said Mr Nicholas Jeffrey, chief executive.

The market had become more uncertain during the second half and Cantors had spent £1.75m on the purchase of 22 shops from the administrators of Lowndes Queensway pushing the group into a net borrowing position, he said.

Late last year Cantors became embroiled in an alleged fraud by Mr Stephen Cantor, a member of the family which controls about 80 per cent of the shares. Mr Cantor has been charged on four counts of fraud and theft involving company shares which were used as security for loans from Den Norske Bank and Royal Trust Bank earlier this year.

The alleged fraud was spotted when the share certificates were presented to the company's registrars. The sample charges covered alleged fraud of £1.25m.

Mr Jeffrey said that Mr Cantor had not been associated with Cantors for eight years and that the company had lost no money from the attempted fraud on the two banks.

Sales at the half-year stage totalled £24.66m, up 9 per cent. The acquisition of the Lowndes Queensway shops lifts the number of Cantors' retail outlets to 105.

All-round growth as Dalepak rises 71%

By Andrew Bolger

DALEPAK FOODS yesterday reported a 71 per cent increase to £1.2m in pre-tax profits for the six months to October 31. Sales rose by 26 per cent to £21m.

The group said it had achieved excellent growth, with most of its businesses contributing to the improvement in spite of the recession and the worsening trading conditions for frozen foods.

The board was confident that the annual results would show another year of substantial progress.

Earnings per share rose by 71 per cent to 6.99p and the interim dividend declared is raised by 15.9 per cent from 1.04p to 1.2p.

There was an extraordinary charge of £260,000 to cover the closure costs of Worsley, which made chilled cooked meats and pies.

London Share Service

THE International Stock Exchange has changed the meaning of its classification of shares into alpha, beta and gamma categories.

In place of the old classification bands, each listed company's stock has been allocated a "normal market size", based on experience of how many of its shares are traded in the typical deal.

The alpha, beta and gamma symbols will be retained in the London Share Service of the Financial Times to show the following:

● Alpha will refer to shares with a normal market size of 2,000 or more. These stocks will be traded by at least two marketmakers through the Stock Exchange Automated Quotation system (SEAQ).

● Beta will refer to all other shares.

● Gamma will refer to preference shares, debentures, warrants and other non-equity traded instruments.

Teredo Petroleum

Teredo Petroleum profits before and after tax were £120,000 (£91,000) for the year to September 30. Turnover amounted to £2.06m (£905,000). The company plans to consolidate existing 10p shares into 50p shares.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Burndene Invs	fin	5.5	-	5.5	8.5	8
Cantors	int	1	Apr 11	1	-	4
D Mell & Gen Tst	fin	83	Feb 22	75	110	100
Dalepak Foods	int	1.2	Apr 8	1.035	-	4
Ellis & Everard	int	2.25†	Mar 14	2.2	-	7
Embassy Prop §	int	2	-	2	-	5
Excalibur	int	0.4†	Apr 1	0.3	-	1.35
Fletcher King	int	1.8	Mar 1	4.3	-	9
Markheath Secs	int	2†	Apr 2	2	-	6
Tomkins	int	2.8†	Apr 11	2.7	-	9.25
Vardy (Reg)	int	1.2	May 2	nil	-	2.4
Zetters	int	1.75	Feb 27	1.75	-	7

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock.

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COMMODITIES AND AGRICULTURE

War would hit base metal demand

By Kenneth Gooding, Mining Correspondent

BASE METALS demand, already forecast to weaken substantially because of deepening recession in many industrialised countries, would drop even more steeply if there was a lengthy war in the Gulf, analysts suggested yesterday.

But a short war could be relatively easily absorbed by the major industrialised countries because they have high oil stocks. Analysts said that a brief war might already have been discounted by the metals market.

A prolonged period of hostilities which caused a sustained rise in oil prices would, however, result in a marked slowing in economic growth – and metal consumption responds disproportionately to a decline in industrial output.

An analysis by Billiton-Enthoven Metals, part of the Royal Dutch/Shell group, shows that at the time of the first oil supply crisis (1973-75) non-communist world consumption of the six metals traded on the London Metal Exchange dropped by between 14.4 per cent and 27 per cent in response to an 8.3 per cent fall in OECD industrial production.

Metal Consumption in Oil-induced Recessions (percentage change, peak to trough)

	1973-75	1979-82
OECD ind. production	−8.3	−4.0
Consumption:		
Copper	−21.2	−8.8
Aluminium	−23.2	−10.3
Zinc	−27.0	−10.9
Lead	−14.4	−9.7
Nickel	−20.4	−17.8
Tin	−18.8	−12.1

Source: Billiton-Enthoven Metals

Similarly, at the time of the second oil shock and its aftermath (1979-82) a 4 per cent fall in industrial production resulted in much greater slumps in demand for the metals.

Mr Angus MacMillan, research manager for Billiton-Enthoven, says: "During both periods metals producers were to varying degrees slow to respond by reducing production in order to bring it into line with the lower levels of demand. As a result, stocks accumulated and, as they did so, prices fell – in some cases substantially.

"In the case of the second oil shock, the build-up in stocks resulted in a prolonged period of weak real prices. In most cases the failure of producers to close marginal production capacity quickly enough resulted in prices falling more steeply and remaining low for longer than would have been the case if they had responded in a more timely way."

While past history provides an example of what might happen if there was a long war in the Gulf, Mr MacMillan says Billiton-Enthoven does not expect oil prices to stay high in real or nominal terms for a number of years, as they did following the 1974 and 1979 price rises. So no re-run of the previous oil crises is on the cards, he suggests.

Mr MacMillan also stresses: "We do not expect an extended period of low metals prices such as we saw in the mid-1980s. But 1991 is looking increasingly bleak."

This bearish view of the prospects for base metals in 1991 is confirmed by Mr Euan Worthington, head of the mining team at the S G Warburg Securities financial services group. He suggests that the international capital squeeze and continuing high real interest rates could dampen world economic growth for longer than most forecasters have been predicting.

So Warburg now expects world industrial production to grow by only 1.2 per cent this year and 1.8 per cent in 1992 compared with its autumn forecast of 2.1 per cent and 2.5 per cent. The oil price is forecast to average US$25 a barrel in both years.

Mr Worthington says Warburg's forecast "assumes there is a peaceful resolution to the Gulf crisis or a local war of limited duration.

"A prolonged conflict would raise the oil price, reduce world economic growth and lead to lower metal demand."

Soviet turmoil and Gulf fears see gold rise

By Kenneth Gooding

GOLD PRICES responded yesterday to Gulf war fears and weekend bloodshed in Lithuania but still did not break through the psychologically important barrier of US$400 a troy ounce.

The price reached $398.60 at the London afternoon fixing session, the highest "fix" since October 1 last year.

It eased back slightly in later trading, however, to end the day in London at $398.25 an ounce, up by $7.10 from Friday's close.

Some dealers were disappointed about gold's relatively muted response to the turmoil in the Gulf and the Soviet Union.

One Zurich dealer summed up a widespread feeling in the market when she said: "I know gold has lost some of its speculative shine, but if it can't gain more than four dollars as we head into what could be a major war, then there doesn't seem much hope."

Traders said the gold price nervously approached $400 an ounce yesterday afternoon but volume was thin and selling by producers kept the price in check.

Analysts suggested that technically gold looked set to rise to the $410-$420 an ounce range and that its performance after that depended on events in the Gulf, the direction of the US dollar and the trend of world real interest rates.

A survey of the world's leading mining and metals analysts by Mining Journal magazine showed that nearly all of them expected the gold price to rise in the event of a war but not to rocket away to reach the $800 an ounce level or even the $500 seen in the 1980s. The average price predicted was $430 an ounce, although the forecasts ranged from $405 to $480.

Eight out of 10 of the analysts who were surveyed believed that the gold price would fall back once the war was over, but half of them suggested it would stay above $400 an ounce.

However, 68 per cent of the analysts said that a peaceful settlement in the Gulf would see gold fall to an average of $365.

Claims dispute may delay Canadian mine

By Robert Gibbens in Montreal

PRODUCTION FROM the Eskay Creek gold-silver property in north-western British Columbia could be delayed seriously because of claims disputes.

Mr Jack Davis, the province's mines minister, has brought the issue to a head by saying he will not issue a mining lease until challenges to key claims making up the property are finally determined.

Eskay Creek's owners, the Corona group and Placer Dome, want to get the property into production by late 1993 or early 1994 in a construction programme costing nearly C$200m (£90m). Drilling continues and an access road should be ready by the end of the year, but construction cannot begin until the mining lease has been granted.

The property is located in mountainous terrain north of Stewart. It is recognised as Canada's most important gold find since the Hemlo deposits were uncovered in northern Ontario early in the 1980s and has focused attention on north-western British Columbia's great mineral potential.

A dozen or so companies explored the property between the early 1930s and 1988-89, when its real potential became apparent with the spectacular success of drillhole number 109. Geological reserves are now estimated at 4.36m tonnes containing 0.77 ounces of gold and 29.12 ounces of silver per tonne, mostly in the 21B zone where the ore also contains zinc, lead and copper.

Hole 109 created a frenzy on the Vancouver stock exchange, grading an average 0.87 ounces of gold and 0.97 ounces of silver per tonne plus high lead and zinc values.

Last year Placer, Canada's largest gold producer, fought Corona, a Hemlo producer, for control of Eskay Creek. This ended in Placer getting an indirect 23 per cent ownership in the property and Corona and associates the balance. Corona is managing development.

The 21B deposit is located on four separate claims held by the controlling group but surrounded by a single claim owned by Adrian Resources, a small exploration firm. But all five claims have been overstaked by many other companies, leading to potential challenges to ownership.

The disputes have moved from the Vancouver Gold Commissioner's office to the British Columbia Supreme Court and theoretically could go as far as the Supreme Court of Canada.

Analysts estimate Eskay Creek could produce 350,000 ounces of gold and 12.5m ounces of silver annually contained in concentrates. Cash operating costs would be around US$200 per ounce of gold.

The claims disputes are more serious for Corona, the smaller company which has already invested about C$200m in the Eskay Creek region. Placer, which put out C$106m for its interest in the property, is a larger company and cash rich.

The government may fear potential liability if the claims disputes are not settled quickly. But the mining lease delay is being watched closely by dozens of mining companies with interests in the Eskay Creek region.

Australian offshore oil exploration to stay high

By Kevin Brown in Sydney

AUSTRALIAN offshore oil exploration is likely to remain high this year, but may not reach the record level achieved in 1990, the Australian Petroleum Exploration Association said yesterday.

Mr Keith Orchison, executive director, said between 49 and 62 offshore exploration wells were expected to be drilled this year, at a cost of between A$330m and A$457m. Oil companies spent A$440m last year to drill 62 wells.

An APEA survey of the 60 oil companies operating in Australia also showed that the level of seismic data acquisition – an indicator of future exploration activity – was likely to increase from around 80,000 lines last year to between 125,000 and 155,000 lines.

However Mr Orchison said exploration activity would need to double to put the industry on course to achieve the government's target of identifying 2bn barrels of new oil reserves during the 1990s.

Most of the proposed offshore exploration will take place off the coast of north-western Australia, where several medium-sized fields have been discovered in recent years.

Other major exploration areas will be the Arafura Sea, off the Northern Territory coast, and in waters around Tasmania. Exploration in the Timor Sea is expected to begin by 1993 following the ratification by the Indonesian Parliament of a treaty fixing the border with Australia.

Around 60 oil companies operate in Australia, producing an average of 570,000 barrels per day, of which around 515,000 is produced offshore.

Onshore activity has declined in recent years because of the costs of exploration and production in remote areas. However the association expects oil companies to spend between A$140m and A$170m on onshore exploration this year, mostly in South Australia and Queensland.

Mr Orchison said Australian companies planned to spend A$536m on exploration and development overseas, including A$292m in Papua New Guinea, where Australian companies have been prominent in the development of fields such as Kutubu.

The association expects crude oil prices to reach US$50 a barrel if war breaks out in the Middle East, but says the most likely scenario is that the price would fall below US$20 by the end of the year.

Such a fluctuation in prices would have little short-term effect on exploration plans, it said.

Turkish steel mill agrees coking coal supply with US, Australia

By Gerard McCloskey

THE TURKISH steel mill TDCI has signed with its US and Australian coking coal suppliers for 1991, the first mill to do so in the European Region. The settlement, which took place at the end of last week and over the weekend, comes when dropping steel production is forecast. Nonetheless the Turkish mill settled for what are virtually roll-over prices or, so the coal exporters are claiming, something rather better.

These roll-over prices contrast with the US$1 a tonne drop in prices agreed in Tokyo between Nippon Steel and the world's biggest coking coal exporter, BHP-Utah of Australia. In consequence the coking coal producers are now hoping that, at worst, they will be able to avoid price cuts when the big European steel mills enter into negotiations over the next few weeks.

The new prices into Turkey are, for the US suppliers, US$51.54 fob and for the Australians just over US$52 from Queensland. The contracts in total amount to 2.6m tonnes, with half going to the Australian supplier Curragh, BHP-Utah and BHP Minerals. The US's largest producer, Pittson, shares the US supplies, along with coal traders Philipp Brothers and Thyssen.

The Australian awards mark a clear move by TDCI away from sourcing all its coal in the US. In previous years trading companies rather than coal producers have dominated the Turkish mills' business.

Since, alone among the world's major mills, TDCI works through a tendering system this combination has inevitably led to traders bidding prices without first sourcing coal supplies. The sad result of this has been, on occasion, coal being delivered which had no coking properties.

That Pittson should be content with US$51.54 is remarkable since this week it, along with other US producers, is in Japan trying to avoid the US$1 price cut accepted by all the Australians and, subsequently, by the Canadians. Alone among these Pittson has a contract with the Japanese mills which is, at US$55.70, well above the market level. Many of the Australian producers have been angered by BHP's settlement, which has cut US$1 a tonne off the price not only of hard coking coal but also the other qualities purchased by the mills, soft and semi-soft coking coals.

This latter quality, which comes from mines that also supply steam coal to the Japanese power companies, is currently in considerable oversupply from Australia. BHP believes its across-the-board settlement has underpinned all Australian prices.

In reality the US$1 a tonne cut reflects the eagerness of all the producers to settle before any explosion in the Gulf, which has the potential of destabilising many raw material markets. However, unlike Europe, where steel production is not currently growing, the Asian market is strong. Japanese production is expected to reach 110m tonnes this financial year and while a drop is expected next year it will not be to the sub-100m tonnes level seen in the mid-1980s.

Reliance on Soviets worries India

By Kunal Bose in Calcutta

INDIA IS increasingly worried by its overdependence on the Soviet Union as a destination for its coffee exports. Faced with a virtually stagnant domestic market, it must export the major part of its production and nearly half of the 100,000 tonnes it expects to sell overseas is likely to go to the Soviets.

About 50 other countries buy Indian coffee, but only in small quantities.

The government has repeatedly pointed out the "danger of overdependence on a single buyer", but the Coffee Board and private exporters have yet to evolve a marketing strategy to boost the country's coffee sales, particularly in the US, western Europe and Japan.

There is no doubt that India's export performance would have been better in terms of earnings and market spread had the industry paid more attention to value-adding and to packaging.

The research and development shortcomings of the industry could be taken care of to a large extent, however, once the government-sponsored Institute of Coffee Technology begins operating.

But the Indian coffee economy will remain structurally weak until such time as there is a healthy growth in domestic demand for the beverage. Between 1981-82 and 1989-90 domestic demand increased by less than 10,000 tonnes to about 60,000 tonnes.

Industry officials point out that the production of instant and decaffeinated coffee will have to be stepped up if domestic consumption is to be given a boost. In the meantime the Indian coffee production estimate for 1990-91 has been scaled down from 220,000 tonnes to 175,000 tonnes, following damage to coffee buds because of dry weather at blossoming time.

Even then the current season's production will be substantially higher than the 130,000 tonnes of 1989-90. The Indian coffee crop is notorious for its wide fluctuation. In 1988-89 production totalled 215,000 tonnes.

In the first five months (April to August) of the current coffee year India's exports totalled 45,285 tonnes. Last year's total was a record 130,172 tonnes, made possible by a substantial carryover from the previous season.

Ottawa sets up farm insurance package

By Robert Gibbens in Montreal

THE Canadian federal government has put together a permanent farm income insurance programme, aimed partly at bringing stability to the Prairie economies. Funding is shared between Ottawa, the provinces and producers.

The programme is also designed to ensure that governments do not have repeat the emergency rescue plans that have cost millions of dollars over the past five years.

Farmers will enrol in a subsidised insurance plan that pays out when prices and farm incomes fall.

The programme is due to come into operation in time for this spring's seeding. It comprises a growth revenue insurance plan, operating like crop insurance, and net income stabilisation or a trust fund to stabilise income in down swings.

The programme will apply to crops covered by the western grain stabilisation programmes, such as wheat and barley, and in eastern Canada also to maize, soyabeans and several other crops.

Some other government support programmes may be cut and the Western Grain Stabilisation Fund could be phased out.

Many farm groups cautiously welcomed the programme, though one western wheat lobby said ad hoc bailouts would still be needed to meet crop disasters and other emergencies.

WORLD COMMODITIES PRICES

MARKET REPORT

GULF GLOOM continued to weigh down prices on the London Metal Exchange yesterday, although movements were not of any great size. Dealers said the outbreak of hostilities had already been partly discounted but the growing inevitability of war and uncertainty about how long it would last were adding to pressure on most markets. Copper led the field with a £19 fall in the cash position to £1,291.50 a tonne, apparently ignoring news that a twice-postponed strike at Southern Peru Copper Corporation was now scheduled to begin today. Cash zinc closed $35 down at $1,244.50 a tonne, encouraged by news that workers at Noranda's Heath Steele mine in New Brunswick had reached a tentative labour agreement after working without a contract since November 14. With lead, tin and nickel prices registering very small losses, the only LME contract to defy the trend was aluminium, which closed $7.50 up for cash at $1,531 a tonne. Aluminium is produced in the Middle East, though on a relatively minor scale, and a war could threaten substantial expansion plans in the region. Freight futures, in which war fears have also encouraged gains recently, were trimmed back a little.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$24.20-4.40x	+2.82
Brent Blend (dated)	$29.55-9.65	+3.45
Brent Blend (March)	$28.40-8.60	+3.10
W.T.I. (1 pm est)	$29.60-9.70t	+2.90
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$310-312	+30½
Gas Oil	$311-316	+43½
Heavy Fuel Oil	$148-150	+5
Naphtha	$328-331	+41
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$398.25	+7.10
Silver (per troy oz)♣	419.50c	+4.40
Platinum (per troy oz)	$423.75	+1.50
Palladium (per troy oz)	$90.75	+2.75
Aluminium (free market)	$1515	-20
Copper (US Producer)	118¾c	-¼
Lead (US Producer)	50c	
Nickel (free market)	408c	-1
Tin (Kuala Lumpur market)	15.12r	+0.02
Tin (New York)	280c	-2
Zinc (US Prime Western)	70c	
Cattle (live weight)†	109.26p	+1.58*
Sheep (dead weight)†	144.65p	-1.75*
Pigs (live weight)†	76.82p	-0.21*
London daily sugar (raw)	$225.0z	+2.8
London daily sugar (white)	$295.8z	+3.3
Tate and Lyle export price	£226.5	+2.5
Barley (English feed)	£120t	
Maize (US No. 3 yellow)	£164.5	
Wheat (US Dark Northern)	£87	
Rubber (Feb)♥	51.25p	
Rubber (Mar)♥	51.50p	
Rubber (KL RSS No 1 Feb)	236.5m	
Coconut oil (Philippines)§	$352.5w	
Palm Oil (Malaysian)§	$352.5	+2.5
Copra (Philippines)§	$245x	
Soyabeans (US)	£138	
Cotton "A" index	83.30c	+0.45
Wooltops (64s Super)	421p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Dec. t-Feb. v-Jan. w-Feb/Mar z-Jan/Feb. x-Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	199.80	201.80	201.80 197.20
May	202.00	205.00	204.60 200.20
Aug	209.20	211.00	209.60 207.60
Oct	209.80	210.80	209.80 207.00
Mar	210.20	212.00	210.00
May	212.20	214.00	210.00
White	**Close**	**Previous**	**High/Low**
Mar	293.0	294.3	293.2 291.0
May	291.5	292.5	292.0 289.5
Aug	300.5	301.5	300.0 298.0
Oct	276.0	276.5	275.5 274.0
Dec	272.0		271.0
Mar	273.5	274.5	273.0
May	276.0		276.0 275.5

Turnover: Raw 854 (2385) lots of 50 tonnes. White 730 (788)
Paris- White (FFr per tonne): Mar 1524, May 1526, Aug 1588, Oct 1463.

CRUDE OIL – IPE $/barrel

	Latest	Previous	High/Low
Feb	29.80	25.67	31.20 28.20
Mar	28.80	24.87	30.50 27.40
Apr	27.60	24.38	28.70 26.40
May	26.50	23.00	27.50 25.50
IPE index	25.82	26.60	26.60 25.82

Turnover 14440 (24696)

GAS OIL – IPE $/tonne

	Latest	Previous	High/Low
Feb	285.75	248.75	314.00 270.00
Mar	265.00	233.75	287.00 258.00
Apr	248.00	218.00	261.00 242.50
May	240.00	212.50	251.00 237.50
Jun	235.50	209.50	250.00 235.00
Jul	230.00	207.75	242.00

Turnover 24589 (11827) lots of 100 tonnes

TEA

A STRONG demand prevailed, reports the Tea Brokers' Association. Assams continued to meet keen competition at fully firm to dearer rates with more support than of late for plainer types. Best liquoring Africans were a strong feature and advanced while mediums were irregular but little changed on balance, with more enquiry for dust grades. Ceylons came in for better demand and prices, where changed, moved in sellers favour. Offshore teas were well supported at firm to dearer rates. Quotations: quality 230p nominal (last week 220p), medium 135p (135p), low medium 86p (85p).

COCOA – London FOX £/tonne

	Close	Previous	High/Low
Mar	681	680	684 675
May	714	713	717 708
Jul	744	742	745 738
Sep	772	769	771 765
Dec	800	797	800 793
Mar	826	820	825 819
May	846		841 838

Turnover: 4399 (9412) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jan 11 903.15 (881.33) 10 day average for Jan 14 872.93 (871.22)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low
Jan	590	602	603 588
Mar	575	583	586 573
May	582	587	591 578
Jul	595	601	603 591
Sep	610	618	617 609
Nov	625	635	632 626

Turnover: 3124 (4637) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jan 11: Comp. daily 70.25 (71.22). 15 day average 71.25 (71.46)

POTATOES – London FOX £/tonne

	Close	Previous	High/Low
Apr	120.5	123.8	122.9 120.0
May	140.0	142.8	140.5 139.5

Turnover 373 (328) lots of 40 tonnes.

SOYAMEAL – London FOX £/tonne

	Close	Previous	High/Low
Feb	110.00	112.00	110.00
Apr	112.10	114.50	114.00 112.10
Jun	112.10	116.00	114.00 112.10
Aug	113.00	116.00	114.00 113.00

Turnover 336 (226)lots of 20 tonnes.

FREIGHT – London FOX $10/index point

	Close	Previous	High/Low
Jan	1453	1460	1460 1453
Feb	1469	1479	1480 1469
Apr	1351	1355	1360 1350
Jul	1050	1062	1069
BFI	1440	1439	1440

Turnover 87 (108)

GRAINS – London FOX £/tonne

Wheat	Close	Previous	High/Low
Jan	118.15		118.25 118.00
Mar	120.85	121.40	121.15 120.65
May	124.60	124.95	124.70 124.25
Sep	108.85	108.90	108.75
Barley	**Close**	**Previous**	**High/Low**
Jan	111.50	112.00	
Mar	114.10	114.60	

Turnover: Wheat 283 (349). Barley 0 (210).
Turnover lots of 100 tonnes.

PIGS – London FOX (Cash Settlement) p/kg

	Close	Previous	High/Low
Jan	94.8	95.0	94.8 94.2
Feb	93.2		93.2
Jun	98.5		98.5

Turnover: 26 (15) lots of 3,250 kg

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 32,358 lots
Cash	1530-2	1523-4	1520/1511	1511-2		
3 months	1564-5	1554-5	1564/1546	1545-6	1561-2	52,209 lots
Copper, Grade A (£ per tonne)						Total daily turnover 40,344 lots
Cash	1291-2	1310-1	1294/1289	1291.5-2.5		
3 months	1321-2	1340-1	1336.5/1316	1324-5	1320-1	103,340 lots
Lead (£ per tonne)						Total daily turnover 3,354 lots
Cash	316-7	316.5-7.5	327/325	324-5		
3 months	330.5-1	330.5-0.75	340/330	339.5-40.5	331-2	11,121 lots
Nickel ($ per tonne)						Total daily turnover 1,536 lots
Cash	8800-25	8800-25	8875/8800	8775-800		
3 months	8750-800	8775-8800	8800/8750	8775-800	8750-75	8,198 lots
Tin ($ per tonne)						Total daily turnover 1,586 lots
Cash	5635-45	5645-55	5635/5632	5633-5		
3 months	5740-50	5755-65	5750/5725	5740-50	5740-50	6,990 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 5,282 lots
Cash	1224-5	1259-60	1250/1225	1247-8		
3 months	1227-8	1259-61	1256/1220	1250-2	1218-20	17,001

LME Closing £/$ rate: SPOT: 1.9065 3 months: 1.8775 6 months: 1.8525 9 months: 1.8323

MGMI – London FOX

	Close	Prev.	High	Low	Vol
Indx	157.00	159.60	157.00		
Feb	158.80	160.20	159.20	158.80	60
Mar	159.20	161.20	159.50	158.40	90
Jun	159.00	160.50	159.00		60
Sep	158.50	160.70	158.50		133
Dec	157.90	160.80	157.90		133

LONDON BULLION MARKET
(Prices supplied by N.M.Rothschild)

Gold (fine oz)	$ price	£ equivalent
Close	398.00-398.50	
Opening	394.50-395.00	
Morning fix	395.35	208.683
Afternoon fix	398.60	209.184
Day's high	399.75-400.75	
Day's low	394.00-394.50	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	6.00	6 months	5.47
2 months	5.74	12 months	5.28
3 months	5.64		

Silver fix	p/fine oz	US cts equiv
Spot	220.90	419.50
3 months	228.40	427.05
6 months	235.55	434.80
12 months	249.00	449.70

TRADED OPTIONS

Coffee	Mar	May	Mar	May
550	34	45	9	14
600	10	20	35	39
650	2	8	77	77
Cocoa	**Mar**	**May**	**Mar**	**May**
650	44	17	14	8
700	18	49	38	36
750	6	29	76	66
Brent Crude	**Mar**	**Apr**	**Mar**	**Apr**
2800	480	500	500	640
2850	500			
2900	450			

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Jan	400.1	391.6	398.3	398.0
Feb	401.6	393.3	402.5	398.5
Mar	403.0	394.7	404.0	403.0
Apr	404.8	396.4	405.8	402.0
Jun	408.6	400.0	410.0	405.5
Aug	412.0	403.4	411.0	410.1
Oct	415.6	406.9	412.5	412.5
Dec	419.2	410.5	420.0	415.0
Feb	423.0	414.3	0	0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Jan	417.7	418.6	421.5	418.5
Apr	421.7	422.6	425.5	420.5
Jul	425.5	426.4	429.0	423.5
Oct	429.2	430.1	430.0	430.0
Jan	434.0	434.8	0	0

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Jan	421.2	413.0	0	0
Feb	423.0	414.8	0	0
Mar	425.7	417.5	428.0	420.2
May	431.6	423.2	433.5	426.5
Jul	437.2	428.8	438.0	431.0
Sep	443.0	434.3	440.1	439.0
Dec	451.3	442.3	453.0	447.0
Jan	453.5	444.4	0	0
Mar	460.1	450.9	459.5	459.5
May	466.1	456.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	112.40	114.30	113.50	112.30
Feb	111.85	114.00	113.00	111.80
Mar	110.60	112.85	111.80	110.30
Apr	109.40	111.50	110.30	109.20
May	108.70	110.35	109.80	108.50
Jun	108.00	109.70	108.90	108.00
Jul	107.40	108.75	108.40	107.80
Aug	106.85	108.00	0	0
Sep	106.30	107.25	107.30	106.50
Oct	105.75	106.55	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Feb	31.35	27.29	32.00	30.30
Mar	30.20	26.24	30.25	29.10
Apr	28.74	25.24	28.74	28.74
May	25.86	24.36	0	0
Jun	25.08	23.58	25.08	25.08
Jul	24.41	22.91	24.41	24.41
Aug	23.88	22.38	23.88	23.88
Sep	23.50	22.00	23.50	23.50

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Feb	9010	7736	9200	8780
Mar	8520	7322	8700	8310
May	6800	6500	0	0
Jun	6810	6210	0	0
Jul	6485	6085	0	0

COCOA 10 tonnes;$/tonnes

	Close	Previous	High/Low	
Mar	1210	1197	1216	1181
May	1249	1236	1252	1221
Jul	1289	1276	1290	1265
Sep	1324	1310	1323	1305
Dec	1362	1349	1368	1360
Mar	1401	1388	1398	1380
May	1429	1416	0	0

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Mar	86.55	87.80	87.20	86.25
May	89.10	90.70	89.65	89.00
Jul	91.35	93.15	92.00	91.30
Sep	93.60	95.90	94.30	93.60
Dec	96.55	99.20	97.50	96.30
Mar	98.90	101.65	99.50	99.25
May	100.85	103.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Mar	9.03	9.14	9.09	8.91
May	9.12	9.20	9.16	9.02
Jul	9.17	9.28	9.21	9.05
Oct	9.20	9.29	9.24	9.10
Mar	9.30	9.39	9.28	9.25
May	9.33	9.40	0	0

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	75.85	76.02	76.20	75.55
May	74.55	74.58	74.65	74.10
Jul	73.90	73.81	74.00	73.60
Oct	66.85	66.86	66.87	66.80

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	121.00	117.00	122.00	119.00
Mar	118.95	114.15	119.15	115.30
May	119.50	114.50	119.50	116.75
Jul	120.00	115.25	120.05	116.50
Sep	116.00	116.05	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)

Jan 14	Jan 11	mnth ago	yr ago
1697.4	1699.8	1714.3	1795.2

DOW JONES (Base: Dec. 31 1974 = 100)

	Jan 11	Jan 10	mnth ago	yr ago
Spot	124.30	124.03	123.64	127.92
Futures	126.50	126.71	126.23	130.45

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	551/2	553/6	551/4	545/0
Mar	559/2	561/6	558/4	549/4
May	571/6	575/2	572/2	561/0
Jul	584/6	588/0	585/0	576/0
Aug	587/0	591/6	587/0	582/0
Sep	587/4	591/6	587/4	583/4
Nov	594/2	597/4	594/4	590/4

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Jan	20.53	20.57	20.53	20.38
Mar	20.71	20.74	20.74	20.51
May	21.01	21.05	21.04	20.87
Jul	21.25	21.32	21.30	21.13
Aug	21.20	21.28	21.34	21.14
Sep	21.20	21.25	21.35	21.18
Oct	21.22	21.26	21.32	21.18
Dec	21.27	21.33	21.35	21.20

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Jan	159.4	161.1	159.5	157.0
Mar	163.8	165.3	164.0	161.0
May	168.4	170.0	168.5	166.0
Jul	172.8	174.2	172.8	170.0
Aug	174.5	175.9	174.5	172.5
Sep	175.0	176.0	175.0	173.0
Oct	174.7	176.5	174.7	172.5
Dec	178.0	179.4	178.0	174.0

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Mar	233/4	230/6	234/0	230/2
May	240/2	237/0	240/6	236/0
Jul	247/0	243/6	247/0	243/0
Sep	248/4	246/2	248/6	245/0
Dec	250/0	248/4	250/2	247/0
Mar	258/6	255/4	258/6	254/0

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Mar	248/6	252/4	250/0	247/0
May	257/4	261/4	259/4	256/0
Jul	264/4	268/4	267/2	264/0
Sep	272/0	277/0	273/0	271/0
Dec	284/4	289/0	286/4	283/0

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Feb	75.25	76.35	76.02	75.05
Apr	74.42	75.62	75.35	74.20
Jun	72.62	73.70	73.45	72.42
Aug	72.25	73.10	72.90	72.22
Oct	72.30	73.12	73.00	72.25
Dec	72.65	73.25	73.17	72.65

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Feb	50.67	51.00	50.75	50.30
Apr	48.80	48.55	49.30	48.40
Jun	53.85	54.45	54.22	53.52
Jul	53.95	54.55	54.20	53.60
Aug	51.72	52.07	51.87	51.50
Oct	46.80	47.10	47.00	46.55
Dec	47.45	47.87	47.50	47.45

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	68.07	69.80	69.17	67.80
Mar	67.77	69.42	68.95	67.42
May	68.02	69.75	69.10	67.75
Jul	67.45	68.92	68.35	66.95
Aug	64.65	66.20	65.50	64.55
Feb	60.00	61.10	0	60.00

هكذا من الأصل

LONDON STOCK EXCHANGE

Institutions search for safer havens

EQUITIES sagged at the start of the new account yesterday as institutions responded to the increasing likelihood of conflict in the Gulf by avoiding the London stock market. The City responded in time-honoured style to the prospect of war: it bought dollars and gold, which are deemed to be safe havens in uncertain times. Sterling, backed by North Sea oil, also rose. The losers were shares, longer gilts and the currencies of oil importing nations.

The price of crude oil rose by more than $3 a barrel, but enthusiasm for shares in oil companies was tempered by the announcement of a $2bn charge against restructuring by US company Occidental Petroleum, run by Armand Hammer until his death last month. Gold closed $7.1 better

Account Dealing Dates			
*First Dealings:	Dec 31	Jan 14	Jan 28
Option Declarations:	Jan 10	Jan 24	Feb 7
Last Dealings:	Jan 11	Jan 25	Feb 8
Account Day:	Jan 21	Feb 4	Feb 18

*New-time dealings may take place from 9.00 am two business days earlier.

in London at $398.25, a change that was reflected in a good performance from precious metals mining shares.

Dearer oil prompted equity strategists to restate their pessimistic views of the health of industrialised economies. Mr Richard Kersley at BZW said that the developed world was weaker than in the last oil price shock of 1979-80. Finance ministers might not be able to resist the pressure to reduce interest rates to cushion the effect of a deepening recession. As a consequence inflation could be worse than otherwise.

A more positive picture for UK investors came from Mr John Reynolds at County NatWest. He said that institutions had about 6 per cent of their funds in cash, amounting to £34bn. Any fall in share prices would be limited because fund managers felt they already had enough cash. If conflict started in the Gulf, funds would look for buying opportunities, especially if 2000 on the FT-SE 100 index was breached. However, by buying soon after hostilities broke out, institutions would be betting on the war lasting a matter of weeks, warned Mr Reynolds. After that, the financial cost of waging war would bear down on the prospects for recovery.

The tension in the Gulf and the Baltic states of the Soviet Union was not the only factor behind a sluggish start to trading yesterday. Marketmakers struggled to get to grips with changes in the way share prices are quoted and trades are recorded.

Traders are now obliged to deal at the prices they quote on Seaq screens. On top of that, turnovers in all equities are being made public on the day the business is conducted, instead of just in alpha stocks, while details of unusually large trades are hidden for 90 minutes after their execution, which makes it more difficult to read the way the market is going.

Trading volume reached a dismal 267.3m and the FT-SE 100 index close 25.3 down at 2,080.8. Six constituents of the Footsie went ex-dividend, accounting for 1.6 of the decline.

The index was 34.3 off at worst, just before the start of trading in Wall Street. The modest recovery on both sides of the Atlantic was stimulated by reports of an apparently Yemeni-inspired last minute peace plan for the Gulf.

In its grim mood, the market looked on the negative side of an unexpectedly large 1.9 per cent increase in retail sales in December. Rather than regard the active consumer as a sign of economic health, it saw the chances of an interest rate cut fade further. The stores sector itself failed to take heart from the figures, not least because the Confererdation of British Industry, the employers' association, said that British retailers' confidence was at an eight-year low.

FINANCIAL TIMES STOCK INDICES

	Jan 14	Jan 11	Jan 10	Jan 9	Jan 8	Year Ago	1990/91 High	1990/91 Low	Since Compilation High	Since Compilation Low
Government Secs	82.77	83.29	83.31	83.39	83.12	82.39	84.20 (2/1/90)	74.13 (30/4/90)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	90.98	91.06	91.09	91.05	90.97	92.39	92.91 (8/1/90)	83.80 (30/4/90)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1627.9	1646.0	1650.3	1668.5	1636.9	1896.9	1968.3 (3/1/90)	1510.4 (24/9/90)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	179.7	172.0	172.2	170.2	174.9	349.4	378.5 (6/2/90)	136.2 (18/12/90)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2080.8	2106.1	2108.7	2128.9	2099.9	2366.2	2463.7 (3/1/90)	1990.2 (28/9/90)	2463.7 (3/1/90)	986.9 (23/7/84)
FT-SE Eurotrack 100	900.45	928.86	928.73	941.77	916.79♦	-	1003.35 (6/12/90)	900.45 (14/1/91)	1003.35 (6/12/90)	900.45 (14/1/91)
Ord. Div. Yield	5.88	5.81	5.81	5.76	5.85	4.50				
Earning Yld %(full)	12.25	12.11	12.11	11.89	12.19	10.98				
P/E Ratio(Net)(☆)	9.87	9.99	9.98	10.08	9.92	11.02				
SEAQ Bargains	31,283	32,250	31,641	30,058	30,982	27,013				
Equity Turnover(£m)†	-	710.05	1136.13	852.50	601.75	746.48				
Equity Bargains†	-	32,755	30,617	30,782	31,390	27,791				
Shares Traded (ml)†	-	323.8	381.4	357.8	325.1	314.8				

Basis 100 Govt. Secs 15/10/26, Fixed int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 100 31/10/90. ☆ Nil 9.70 ♦ Indicative.

Ordinary Share Index, Hourly changes — Day's High 1642.9 — Day's Low 1617.1

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1642.2	1636.9	1635.6	1625.7	1625.1	1625.8	1618.2	1620.3	1628.5

FT-SE, Hourly changes — Day's High 2102.4 — Day's Low 2071.8

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2101.4	2095.8	2094.1	2081.9	2080.0	2080.2	2073.2	2073.7	2081.8

FT-SE Eurotrack 100, hourly changes — Day's High 909.44 — Day's Low 899.10

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
909.44	907.05	907.02	903.91	902.86	900.12	900.23

GILT EDGED ACTIVITY

Indices*	Jan 11	Jan 10
Gilt Edged Bargains	117.9	128.8
5 – Day average	108.4	104.7

*SE Activity 1974.
†Excluding intra-market business & Overseas turnover.

London report and latest Share index: Tel. 0898 123001

Oils move against market

THE IMMINENT expiry of the United Nations deadline for Iraq to quit Kuwait triggered a sharp rise in crude oil prices and led to a flurry of activity in oil shares. BP led the sector in a session of marked outperformance against the wider market. Oil prices rose by more than $6 to top $32 a barrel at one point in the morning before receding to around $28.55 towards the close.

BP easily outshone Shell, closing 4 firmer at 325p, with dealers pointing to the former's higher gearing to rising crude prices. Shell settled 2 off at 442p.

The exploration and production (E & P) stocks, however, were unsettled by news that America's Occidental, as part of a major restructuring, is taking a $2bn after-tax charge against fourth quarter earnings, slicing its quarterly dividend from 62.5 cents to 25 cents and reducing its debt via asset sales. The sales were interpreted by some specialists as possibly meaning North Sea interests, and resulted in Enterprise dipping 5 to 578p and Lasmo 2 to 357p. Asset valuations are crucial to the E & P stocks.

County NatWest outlined its oil sector strategy, taking the view that oil price fundamentals are extremely weak and "an end to the (Gulf) crisis would see oil prices fall towards $16 a barrel, which is where the underlying price already is. The sector relative could then plunge to 190 from 220 with most risk in BP."

Nomura has shifted its sector stance from underweight to neutral. Nomura said: "The downside risk is probably $10, the upside risk somewhat higher." Laing & Cruikshank described its stance on the sector as "very bullish."

GRE slips back

There was no let-up in the downward pressure on the insurance sectors of the market, with Guardian Royal Exchange a notable casualty in the composites after Smith New Court increased its forecast of losses for calendar 1990.

The broking house also said it now expected the company to merely maintain its final dividend; Smith had been looking for GRE to increase its final payment by around 10 per cent. GRE's preliminary results are expected towards the end of March.

Smith's insurance team, which previously had predicted a loss of £125m, is now looking for GRE to post a 1990 deficit of £155m. Other analysts are thought to be about to increase their forecasts of GRE losses.

Mr Steven Bird, an insurance specialist at Smith, said GRE had suffered from large underwriting losses in the UK and a steep reduction – from £1.64bn to close to £900m – in shareholders' funds.

Less than two weeks ago GRE issued a profits warning along with news that it was selling some of its loss-making Italian businesses. The company said it was sharply raising provisions on its personal liability account. GRE shares dipped 5 to 184p.

International stocks eased in line with the rest of the market. Fisons was the worst performer, declining 8½ to 347p, with traders reporting selling by Japanese securities houses.

The market was in no mood to accept a positive interim statement from Tomkins, the industrial conglomerate. Boosted by the acquisition of US-based Philips Industries, profits rose 34 per cent to £31.2m and exceeded most market expectations. Chief executive Mr Greg Hutchings was confident about future prospects but the shares, rated a sell by County NatWest last Friday, were unable to respond and closed 4 easier at 216p.

Ellis & Everard, the international chemicals distributor, was another company to reveal good mid-term results. Along with a profits rise of 36 per cent to £10.8m, a figure which beat analysts' forecasts, the group said it would come through recessionary times better than most. Investors were not impressed, however, and the shares dipped 5 to 167p.

Chloride was one of the few issues to buck the trend. Following the proposed sale of most of the group's battery interests for some £57.5m, the shares improved a penny to 17p. Hawker Siddeley is buying the UK industrial battery division for £43.5m, while Tech Trade (Singapore) is acquiring the 76 per cent interest in Chloride Eastern Industries (CEIL) for about £14m. Hawker, unaccountably weak last Friday, slipped 4 to 424p.

Other chemical issues were hit by growing concern over rising energy costs at a time when the industry is among those experiencing the full effects of the UK recession.

Laporte led the downturn with a fall of 10 to 469p, while Croda International, 153p, and Hickson International, 117p, gave up 7 and 8 respectively.

Grand Metropolitan suffered as attention turned to currency movements and the US, where the group is heavily exposed to the deterioration of consumer confidence. Quoted ex the final dividend payment, the shares encountered only a moderate trading volume but closed 13 down at 644p.

Fears that an outbreak of hostilities in the Gulf would seriously affect hotel bookings sent stocks with related interests lower. Business was said by dealers to be light, but Bass came back 19 to 1029p. Others to show sizeable losses were Ladbroke, down 9 at 225p, and Trusthouse Forte, 6 off at 231p.

Bank shares took another pasting, with dealers on the defensive for much of the session as institutions became increasingly nervous of the sector ahead of the preliminary reporting season, which gets under way on February 22 with figures from Lloyds. Hoare Govett expects the "big four" to produce bad debt charges more than treble last year's at £2.5bn, with the greatest increase (up six-fold) coming from Midland.

Standard Chartered, where analysts are now looking for a cut in the dividend, declined 5 more to 208p. Barclays lost 10 to 334p and Lloyds 9 to 277p, while NatWest also slipped 9 to 255p.

A profits downgrade by County NatWest upset sentiment in Willis Corroon, the insurance broker. County cut 1990 and 1991 forecasts from £92m and £140m to £89m and £127m respectively, reflecting a slowdown in growth at Corroon and loss of the Johnson & Higgins business.

The possibility of increased aerospace and defence equipment sales pushed British Aerospace up 4 to 528p against the wider market, but did little for shares of other defence manufacturers.

Vickers slipped 3 to 190p on continuing speculation that Sir Ron Brierley's IEP Securities is considering the sale of its 20 per cent shareholding, while Rolls-Royce receded 5⅛ to 148½p in turnover of 4.1m.

Adverse press views on the cash call, through a rights issue, by London International Group continued to unsettle both the old and new shares, which closed 8½ down at 198p and 8p premium respectively.

Various stocks felt the repercussions of broker downgradings, including British Steel, which eased 1¼ to 115p. Both profit and dividend expectations were reduced for Bunzl and the shares settled 5 cheaper at 58p.

Unigate dipped 3 to 259p as more brokers lowered profits forecasts. When property profits are stripped out, analysts expect £83m this year from £85m to £87m previously. Next year £91.5m, against £96m, is forecast. Weakness in the poultry market and the downturn in its vehicle leasing division would depress profitability, analysts said. But most securities houses believe that Unigate would maintain its final dividend.

Northern Foods was up 1 at 353p ex-dividend following a positive meeting with analysts at S.G. Warburg.

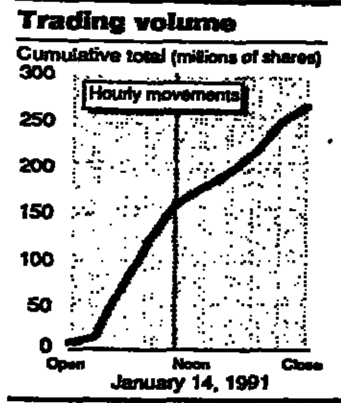
The stores sector received support from a 1.9 per cent increase in December retail sales. Analysts had expected sales to fall. Among those to benefit, Marks and Spencer were unchanged at 226p against a falling market. Ratners, however, retreated 9 to 162p after press suggestions that sales at Christmas may have been disappointing.

Burton were unchanged at 74p following reports that it was attempting to sell Harvey Nichols, the department store, for as much as £120m. But analysts thought that was too optimistic and reckoned £30m to £50m a more realistic price tag. Next slipped 2¼ to 14p on suggestions that it was encountering difficulties selling Club 24, the consumer credit division. Stores specialists said if Next was unable to sell Club 24, then it may be forced into a financial restructuring.

Brent Walker, the debt-laden leisure group, progressed to 61p before settling a net 3 higher at 60p following news that its creditors have waived the deadline for a refinancing agreement after a number of boardroom changes.

■ Other Market statistics, including the FT-Actuaries share index, Page 25

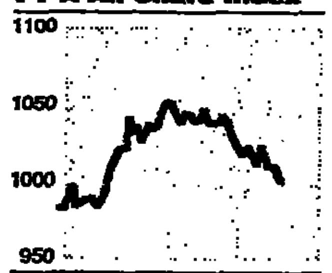
Trading volume



January 14, 1991

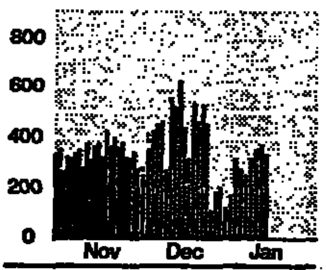
Trading volume, as indicated on Seaq screens, plumbed new depths in early trading. Investors were paralysed by political uncertainties in the Gulf and the Soviet Union, but this was compounded by technical changes to the way in which turnover is recorded. There is now a delay of 90 minutes before deals deemed to be unusually large are published. Figures are updated for 90 minutes after the market has closed. Previously, the price struck in deals worth more than £100,000 was made public the following day.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding: Intra-market business & Overseas turnover



NEW HIGHS AND LOWS FOR 1990/91

NEW HIGHS (5).
BRITISH FUNDS (1) BREWERS (1) ELECTRICALS (1) INSURANCE (1) TRUSTS (5)
NEW LOWS (207).
AMERICANS (1) BANKS (6) BUILDINGS (12) STORES (4) ELECTRICALS (19) ELECTRICITY (2) ENGINEERING (9) FOODS (4) HOTELS (3) INDUSTRIALS (35) ADT, Amber Inds., Avon Rubber, Barrett (Henry), Bilston & Battersea, Black Arrow, Bridon, Brooks Service, Brown & Tawse, Doctus, Elsco, Fenner, Fletcher Challenge, [illegible], C & W, Goode Durrant, [illegible], Hartons, Kleen-E-Ze Hldgs., Le Creuset, Mayflower Grp., Nobo Grp., Norton Grp., Office & Elect., Powell Duffryn, Radiant Metal, Ricardo Intl., Robertson Grp., Silverminess, Third Mile Inv., Titon, Toothill (R.W.), WSP Hldgs., Whitecroft, Worcester, Wyko Grp., LEISURE (7) MOTORS (9) NEWSPAPERS (5) PAPERS (7) PROPERTY (13) TEXTILES (1) TRANSPORT (5) TRUSTS (56) OILS (6) OVERSEAS TRADERS (1) MINES (2).

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change		Volume 000's	Closing Price	Day's change
ADT	1,500	94	-6	Dalgety	82	339	-2	Manpower	15	54		Smith (W.H.) A	339	366	+1
ASDA Group	2,600	120	-2	Dixons	344	138	-2½	Manweb	793	165	-1½	Smith & Nephew	2,100	101½	-½
Abbey National	1,500	215	-4	ECC Group	362	349	-7	Marks & Spencer	1,700	226		SmKl Beecham	815	592	-8
Allied-Lyons	350	479	-5	Eastern Elect.	2,100	135½		Maxwell Comms.	171	149	-2	SmKl Beecham Uts.	0	2805	-20
Amstrad	783	63		East Midland Elect.	1,600	145	-1	Midland Bank	2,000	164	-5	Smiths Inds.	53	211	-2
Anglian Water	202	392	-2	Enterprise Oil	458	578	-5	Midlands Elect.	1,000	139	-1	Southern Elect.	1,600	141	-½
Argos	868	241	-6	Eurotunnel Units	477	363	-11	NatWest Bank	2,600	255	-9	South Wales Elect.	654	157	-½
Argyll Group	1,300	245		FKI	2,400	41½	-2½	Next	1,600	14	-2½	South West Water	201	265	-3½
Ass. Brit. Foods	457	439	-2½	Ferranti	61	14		North West Water	370	258	-3	South West. Elect.	1,100	140	-½
BAA	638	374	-7	Fisons	1,600	347	-8½	Northern Elect.	803	146		Southern Water	18	232	-5
BAT Inds.	1,200	566	-14	Gen. Accident	1,300	471	-11	Northern Foods	864	353	+1	Standard Chartd.	340	208	-5
[illegible]				[illegible]				[illegible]				[illegible]			
BP	3,600	325	+4	Inchcape	[illegible]	238	-4	Rothmans	20	700	-3	United Biscuits	1,200	322	+1
British Steel	2,200	115	-1½	Kingfisher	589	381	-4	Ryl Bk Scotland	1,000	150	-3	Utd. Newspapers	478	290	-1
British Telecom	3,400	272	+½	Ladbroke	1,700	225	-9	Royal Insurance	779	386	-16	Water Package Uts.	2	£2535	-37½
Bunzl	698	58	-5	Land Securities	730	514	-6	STC	10	321		Wellcome	508	419	-6
Burmah Castrol	44	478	-3	Laporte	327	469	-10	Saatchi	1,200	23½		Welsh Water	85	280	+½
Burton	1,500	74		Legal & General	525	358	-10	Sainsbury	339	307	-2	Wessex Water	252	257	-3
Cable & Wire	1,200	442	-5	Lloyds Abbey	341	313	-5	Scottish & New.	742	344	-10	Whitbread 'A'	701	439	-1
Cadburys	662	317	-5	Lloyds Bank	1,200	277	-9	Sears	1,300	85	-1	Wiggins Teape	4,900	180	-7
Calor Group	53	273	-3	LASMO	759	357	-2	Sedgwick	868	226	-4	Williams Hldgs.	811	228	-2
Carlton Comms.	500	369	-4	London Elect.	1,200	143	-1	Seeboard	796	135	-2	Willis Corroon	908	255	-9
Coats Viyella	1,000	100	-3	Lonrho	239	204	-3	Severn Trent Water	869	233	-4	Wimpey	142	195	
Comm Union	465	449	-6	Lucas	1,100	131	+2	Shell Transport	1,900	442	-2	Yorkshire Elect.	1,500	161	+1
Cookson	452	94	-3	MB Caradon	199	154	-1	Siebe	19	312	-2	Yorkshire Water	135	287	-5
Courtaulds	582	308	-4	MEPC	174	487	-5	Slough Ests	232	221					

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1990/91 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
[illegible]						
93	82	Treas. 3pc 1992	91⅝		3.27	9.58
101	95	Exch. 12¼pc '92	100		12.17	11.70
104	98	Exch 13½pc 1992	102		13.13	11.55
94	86	Treas 8¼pc 1993	94		8.74	11.35
98	90	Treas 10pc 1993‡‡	97		10.27	11.33
103	96	Treas 12½pc 1993‡‡	102		12.16	11.18
92	82	Funding 6pc 1993‡‡	89		6.68	10.31
107	99	Treas 13¾pc 1993‡‡	105		12.98	11.23
94	84	Treas. 8½pc 1994	93		9.11	11.09
111	102	Treas 14½pc 1994‡‡	109		13.29	10.96
107	99	Exch 13½pc 1994	106		12.68	11.06
98	88	Treas. 10pc Ln. 1994‡‡	97		10.28	10.93
105	96	Exch. 12½pc 1994	104		12.02	11.07
94	85	Treas 9pc 1994‡‡	93		9.59	10.95
104	94	Treas 12pc 1995	103		11.60	10.93
87	73	Exch 3pc Gas 90-95	83½		3.59	7.58
98	88	Exch. 10¼pc 1995	97⅝		10.50	10.92
108	97	Treas 12¾pc 1995‡‡	106¼		11.94	10.88

Five to Fifteen Years

1990/91 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
112	101	Treas. 14pc '96	110	-½	12.65	11.14
94	82	Treas. 9pc 1992-96‡‡	93		9.63	10.68
119	107	Treas 15¼pc 1996‡‡	116		13.09	11.06
110	99	Exch 13¼pc 1996‡‡	109		12.16	10.98
97	85	Conversion 10pc 1996	96		10.35	10.75
112	98	Treas 13¼pc 1997‡‡	109		12.08	10.98
99	87	Exch 10½pc 1997	98¼		10.69	10.84
91	79	Treas 8¾pc 1997‡‡	90		9.67	10.76
121	106	Exch 15pc 1997	118		12.69	11.11
95	83	Exch. 9¾pc 1998	94¼		10.29	10.82
82	70	Treas 6¾pc 1995-98‡‡	81		8.25	10.32
126	110	Treas 15½pc '98‡‡	122		12.61	10.99
107	93	Exch. 12pc 1998	105		11.38	10.92
95	82	Treas 9½pc 1999‡‡	93		10.14	10.66
109	94	Exch. 12¼pc 1999	106		11.46	10.93
99	85	Treas. 10½pc 1999	98		10.68	10.79
98	84	Conversion 10¼pc 1999	96		10.59	10.80
92	78	Conversion 9pc 2000‡‡	90		9.93	10.58
114	98	Treas. 13pc 2000	111		11.64	10.98
97	82	Treas 10pc 2001	95		10.47	10.71
117	102	Treas 14pc '98-01	114		12.25	11.07
96	81	Treas 9¾pc 2002	93		10.41	10.68
119	102	Treas. 13¾pc 2000-03	115		11.90	10.98
99	82	Treas 10pc 2003	95⅝		10.46	10.63
96	91	Treasury 10pc 2003 "A"	95		10.46	10.62
106	90	Treas 11½pc 2001-04	103		11.11	10.91
56	45	Funding 3½pc '99-04	54		6.44	9.61
96	79	Conversion 9½pc 2004	92¼		10.30	10.56
96	79	Conversion 9½pc 2005	92¼		10.30	10.54
117	98	Treas. 12½pc 2003-05	112		11.11	10.67

Over Fifteen Years

1990/91 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
84	69	Treas 8pc 2002-06‡‡	80		9.90	10.50
111	93	Treas 11¾pc 2003-07	107		10.96	10.65
89	73	Treas 8½pc 2007‡‡	85		9.95	10.34
125	105	Treas 13½pc '04-08	119		11.27	10.65
94	77	Treas 9pc 2008‡‡	89		10.01	10.23
85	69	Treas 8pc 2009	81		9.85	10.26
94	77	Conv 9pc Ln 2011‡‡	89		10.07	10.23
63	50	Treas. 5½pc 2008-12‡‡	59		9.26	10.15
83	67	Treas 7¾pc 2012-15‡‡	77		9.96	10.23
122¼	100	Exch. 12pc '13-'17	115		10.40	10.23

Undated

1990/91 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
41	33	Consols 4pc	38¼		10.46	-
36	29	War Loan 3½pc‡‡	34		10.26	-
61	55	Conv 3½pc '61 Aft	58	-¼	6.01	-
32	26	Treas. 3pc '66 Aft	28¾	-¼	10.43	-
25	20	Consols 2½pc	24¼	-¼	10.36	-
25½	20	Treas. 2½pc	23	-¼	10.44	-

Index-Linked

BRITISH FUNDS—Contd

INT. BANK AND O'SEAS

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Contd

1990/91 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
19¼	524p	Chem. Banking Corpn.	576p	+12	$1.00	-	8.8
12½	5¼	Chrysler $6¼	6¼	-¼	$1.20	-	9.6
18¼	5	Citicorp $1	6	-¼	$1.00	-	8.0
40	29⅝	Colgate-Palmolive $1	36	+⅛	$1.80	-	2.5

CANADIANS

Continued on next page

APPOINTMENTS

Restructure at BET Security

■ BET has restructured its security services operations as a separate division - BET Security and Communications Services, comprising the Shorrock and Varel security businesses and the Rediffusion communications operation. Mr Ray Hart, who is responsible for BET's UK and US security systems (Shorrock Security) and communications (Rediffusion), will also become chief executive of the new division. Deputy chief executive will be Mr Wayne Bradley who heads Shorrock Guards in the UK and Varel in the Netherlands.

■ Following the promotion of Mr Paul Pedley to deputy chairman of REDROW GROUP, Mr Roger Thompson has been appointed financial director. Mr Thompson joins from Countryside Properties.

■ Mr Denis MacDaid has been appointed a director of TAYLOW WOODROW INTERNATIONAL. He joined the group in 1965.

■ SAVE & PROSPER has appointed Mr David Butcher as managing director of Save & Prosper Sales; and Mr Keith Civval as managing director of Save & Prosper Financial Services.

■ Mr Bill Ellaby, finance director of AMERSHAM INTERNATIONAL, is to retire at the end of March. He will be succeeded by Mr Kirk Stephenson, who joins from Morgan Stanley International, where he was a vice-president in the mergers and acquisitions department. Mr Stephenson's appointment is from February 1. Mr Alistair Hamilton, a main board director responsible for international commercial operations including Japanese activities, is to retire in May.

■ Mr Malcolm Hayes has been appointed engineering manager at the Birmingham-based engineering department of EAGLE STAR. He was engineering division head at Walker Greenbank.

■ Mr Peter Leonard has been promoted to investment director of CLERICAL MEDICAL UNIT TRUST MANAGERS. He replaces Mr Paul Williams who has resigned from the board to devote more time to his responsibilities as investment manager (UK equities) for Clerical Medical Investment Group.

■ Mr G.N. Corah, a non-executive director, has been appointed deputy chairman of EAST MIDLANDS ELECTRICITY.

■ Mr Michael Cooke has been appointed general manager of MV Multimedia, a new subsidiary of MICROVITEC. Mr Cooke has been a director of Microvitec for five years and remains on the main board.

■ Mr Peter Grant, chairman of Sun Life Assurance Society, has becomes a non-executive director of BNP U.K. HOLDINGS.

■ Mr Tony Mason has been appointed a director of P&O CONTAINERS. He was general manager of the Australia, New Zealand and Southern Africa divisions, and will retain responsibility for these trades. He joined the company in 1973.

■ Mr Alan Cole has been appointed chief executive of TRANSPORT DEVELOPMENT GROUP. He was managing director, and succeeds Sir James Duncan who continues as chairman.

Eurotunnel post

■ Mr Alistair Fleming, EUROTUNNEL's managing director, construction, will be leaving the company at the end of this month to return to Scotland as a director of the WEIR GROUP. He will be replaced by Mr Roger Picard, who has been with the project as manager of construction since autumn 1989, on secondment from Bechtel International.

■ Mr Miles Flint has been appointed to the board of SONY (U.K.) as managing director of Sony Broadcast and Communication Products (U.K.), the sales and marketing company for broadcast and industrial video, audio and communication products based in Basingstoke. He was with STC Communications where he was managing director of the communications terminal division.

■ Mr Philip Holbeche has been appointed managing partner in charge of private banking at ROYAL TRUST BANK, a wholly-owned subsidiary of Royal Trustco, Canada.

■ Mr Peter Sawdy has been appointed a non-executive director of YULE CATTO & CO. He is chairman of the Costain Group, and deputy chairman of the Hogg Group.

■ Mr Charles Cavanagh will be joining the board of KLEINWORT BENSON INVESTMENT MANAGEMENT on March 4 as head of UK institutional fund management. He was director in charge of UK pension fund business at Mercury Asset Management.

■ POLARIS AIRCRAFT LEASING INTERNATIONAL, London, has appointed Mr Wolfgang Issel as managing director. He was senior vice president, commercial, with MPC Aircraft.

■ Mr Volkert Klaucke *(pictured)*, former joint managing director of Deutsche Bank's mergers and acquisitions subsidiary, has joined PRICE WATERHOUSE

as a partner and managing director of Price Waterhouse Corporate Finance based in Frankfurt. Price Waterhouse Corporate Finance is managed on an integrated European basis, and Mr Klaucke has also been appointed the partner responsible for strategy on the firm's European corporate finance executive committee.

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BANKS, HP & LEASING

1990/91 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
£13¼	£9	ABN Amro Fl5	£9¾	-⅛	Q28%	2.1	8.9	5.3
303	121	ANZ SA1	125	.....	Q38c	♦	12.4	♦
234	172	Abbey National 10p.	215	-4	5.7	4.3	3.5	8.7
*274	128	Allied Irish Ord	131	-2	†Q40%	3.3	6.8	5.9
85	47	Anglo Irish	53	-2	Q18.6%	2.3	7.9	7.0
93	60	Ansbacher (H.) 1p	60	.....	2.5	1.3	5.6	17.3
£71¼	£32½	Bancaire Cie Fr100	£43¼	-1⅜	Q12¼%	-	3.0	-
£22¼	£12¼	Banco Bilbao Vlz	£13	.....	Q49.1%	2.7	6.2	8.9
£58½	£22⅞	Banco de Santander	£22⅞	-1⅛	Q24.7%	2.5	4.5	8.9
286	130	Bank Ireland IR£1	145	.....	Q14.7%	2.9	9.1	5.1
£19½	£18	Bank Leumi	£19½	.....	-	-	-	-
351	320	Bank Leumi (U.K.)£1	350	.....	†15.0	-	5.7	-
129½	100	Bank Scotland	115	.....	†4.55	3.4	5.3	7.3
101¼	83¼	Do. 9¼pc Irrd Pf £1	98½	.....	9¼%	-	12.5	-
54	39	Bank of Wales	42	.....	2.8	0.8	8.9	(20.2)
428	290	Barclays £1	334	-10	†19.57	3.5	7.8	4.6
22	10	Benchmark 20p	11	-1	0.75	-	9.1	-
335	195	Brown Shipley £1	195	.....	‡12.0	2.2	‡	6.3
*435	285	Cater Allen £1	389	-5	F24.5	-	8.4	-
179	29	Chancery	44	.....	†9.0	2.7	‡	1.8
£23¼	£14	Commerzbk DM10	£15⅝	+⅛	Q18%	-	3.9	-
£13¼	620	Dai Ichi KBk Y50	762	.....	Q17%	6.2	0.4	36.0
£312½	£189⅞	Deutsche Bk DM50	£191⅞	-9⅛	Q28%	-	2.5	-
£20⅞	£14⅝	Espirito Santo	£16½	+¼	Q75c	5.1	2.3	8.5
253	158	First Nat. Fin. 10p	158xd	-5½	13.0	♦	11.0	♦
121	82	FNFC 6.3pc Cv Pf £1	83	-3	6.3%	-	10.1	-
£13⅜	633	Fuji Bank Y50	935	+20	†Q17%	6.9	0.4	39.7
325	262	Gerrard & National	318	-2	19.0	-	8.2	-
154	70	Guinness Mahon 10p	70	.....	1.45	♦	2.8	♦
328	194	Hambros 20p	208	-10	†11.5	-	7.4	-
128	88	Do 7.5pc Cv Pf £1	95	-4	7½%	-	10.5	-
53½	29	HK & Shang HK$2.50	30	-½	†‡Q38c	-	8.5	-
478	373	Joseph (Leo) £1	378	.....	15.85	-	5.6	-
150	105	King & Shaxson 20p	122	-1	10.25	-	11.2	-
422	259	Kleinwort Benson Grp	259	-9	16.0	2.5	8.2	6.1
642	316	Kyowa Bank Y50	387	-4	Q14%	♦	0.8	♦
316	220	Lloyds £1	277	-9	†13.3	2.6	6.4	6.5
56	44	Lon. Scot. Bank 10p	53	.....	†2.4	1.9	6.0	10.5
404	163	Midland £1	164	-5	†18.0	2.6	14.6	3.4
£14½	£10⅜	Mitsubishi Bank Y50	£10⅜	.....	†Q17%	♦	0.3	♦
£12¼	£4¼	Mitsubishi Tst & Bk Y50	£6⅜	.....	Q17%	12.4	0.7	11.9
£10⅝	£4⅞	Mitsui Taiyo Kobe Y50	£7⅜	-⅛	†Q16%	6.0	0.5	38.5
904	410	Mitsui Tst & Bk Y50	522	-17	Q17%	♦	0.7	♦
326	203	Nat Aust. Bk. A$1	214	-3	Q55c	1.5	10.5	6.2
368	227	NatWest £1	255	-9	†16.7	3.3	8.7	4.6
£210	£110	Ottoman Bank	£115	.....	Q110%	2.8	9.6	3.7
55	24	Rea Bros. Group	24	-1	0.5	3.2	2.8	12.0
227	119	Royal Bk. Scotland	150	-3	8.4	2.3	7.5	7.7
795	338	Saitama Bank Y50	389	.....	♦Q14%	♦	0.7	♦
£12¼	567	Sanwa Bank Y50	762	.....	Q17%	6.7	0.4	33.4
902½	613	Schroders £1	678	-10	h12.5	5.9	2.5	9.2
712½	413	Do £1 N/V	433	-5	h12.5	5.9	3.8	5.8
£25¼	£9¼	Sec. Pacific $10	£9⅞	.....	Q$2.52	-	13.7	-
616	208	Standard Chartd. £1	208	-5	35.0	1.4	22.4	(3.9)
£16¼	£5¾	Sumitomo Bank Y50	£7⅞	.....	†‡Q16%	7.5	0.4	30.4
£11	£4¾	Sumitomo Tst & Bk Y50	£6	.....	Q17%	6.9	0.6	25.5
147	114	TSB	128	-2½	6.4	q2.1	6.8	9.3
175	114	TSB Bank Ch'nel N/I	117	-4	Q8.0	♦	6.8	♦
£463	£4½	Tokai Bank Y50	£5¼	.....	Q16%	4.1	0.8	37.6
920	484	Toyo Tst & Bk Y50	655	-7	‡Q15.2%	6.9	0.5	29.3
611	499	Union Discount £1	565	-5	33.0	-	7.8	-
525	284	Warburg (S.G.)	315	-7	15.0	3.0	6.3	7.1
180	98	Do 6pc Cnv Prf £1	118	-2	6%	-	7.3	-
279	128	Westpac $A1	132	-1	Q52.5c	1.2	16.2	5.1
420	290	Wintrust 20p	290	.....	8.7	4.2	4.0	8.0
969	509	Yasuda Tst & Bk. Y50	594	-3	Q17%	5.9	0.6	29.7

Hire Purchase, Leasing, etc.

1990/91 High	Low	Stock	Price	+ or -	Div Net	C'vr	Y'ld Gr's	P/E
175	40	CLF Yeoman 50p	58	.....	‡Q18.5%	3.2	‡	2.4
71	44	Cambridge Grp Ir5p	44	-1	†Q7½%	15.6	0.7	10.7
55	11	♦Capital Leasing Ir10p	36½	-1	‡Q13%	3.5	2.9	9.0
*64	46	Castle's (Hdgs) 10p	55xr	.....	K3.8	1.9	9.2	8.4
426	362	Prov. Financial	397	-2	†20.5	2.1	6.9	9.2
*232	119	♦Reflex Invs. Ir5p	128	+9	†‡Q51%	7.9	1.8	9.4
225	192	Secure Trust Grp. 1p	196	-1	†8.5	2.8	5.8	8.2
210	135	Woodchester IR20p	147	-1	†Q16.7%	5.9	2.0	10.9

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ELECTRICITY

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES – Contd

Components

1990/91 High	Low	Stock	Price	+ or –	Div Net	C'vr	Yld Gr's	P/E
458	420	Abbey Panels	453	+2	3.5	10.8	1.0	12.0
225	135	Airflow Streamlines	140	.....	6.0	3.0	5.7	7.8
190	145	Bostrom 5p	145	.....	†5.75	3.1	5.3	6.6
266	145	Dowty 50p	149	.....	†9.0	2.1	8.1	7.1
239	110	FR Group	117	–1	6.37	3.1	7.3	6.0
135	55	Kwik-Fit Hldgs. 10p	71	–2	12.4	2.3	4.5	13.1
174	102	Lucas Inds.	131	+2	7.0	2.5	7.1	6.4
44	14	Do. Warrants	22½	.....	–	–	–	–
80	51	Mid-States 10p	51	–2	2.00	–	2.0	42.7

Garages and Distributors

1990/91 High	Low	Stock	Price	+ or –	Div Net	C'vr	Yld Gr's	P/E
28	14	Alexanders 10p	17	.....	1.0	♦	7.8	♦
135	77	Appleyard 10p	77	–2	†7.8	2.4	13.5	3.6
110	55	Blinkley Motor 20p	70	.....	†7.5	1.9	14.3	5.0
568	395	Caffyns 50p	395	–3	11.5	1.6	3.9	36.0
121	89	Central Motor Auctn.	90	–1	13.25	[illegible]	4.8	8.6
61	18	Cook (D C) Hldgs 5p	18	–2	1.0	5.5	7.4	3.6
89	33	Cowie (T.) 5p	37	–2	4.5	1.5	25.1	5.1
95	56	Dagenham Motors 10p	77	+1	†5.25	2.8	9.1	5.3
98	73	Davenport Vernon 10p	74	–1	3.5	3.6	6.3	5.2
247	163	Evans Halshaw	165	.....	11.25	2.4	9.1	6.0
113	68	Gates (F G)	78	–3	2.75	1.9	5.2	13.1
161	25	Gowrings 10p	35	.....	5.63	[illegible]	[illegible]	5.7

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PROPERTY

PROPERTY – Contd

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRANSPORT

INVESTMENT TRUST

INVESTMENT TRUST – Contd

INVESTMENT TRUST – Contd

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

WATER

OIL AND GAS

OIL AND GAS – Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES – Contd

Tins

Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

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AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Martin Currie Unit Trusts Ltd (0905)H
48 Melville St, Edinburgh EH3 7HF Dlng:031-220 4924

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Far East (Pacific)(2)	5¼	74 99	74 99	79 60	+0 1	0 53
Income & Growth	5¼	50 73	50 73	53.85	-0 4	5.96
European (2) ♦	5¼	46 05	46 05	48 88	-1 4	1 20
Nth American (2)	5¼	29 46	29 46	31 27	+0.3	1 68
Intl Growth(9-1)	5¼	48 90	49 96	53.03	-0 03	0.95
Uk Growth	5¼	45 37	45.37	48.16	-0 4	3 59
Intl Income	5¼	40 80	41.37xd	43 91	-0 06	7 40
High Yield	5¼	39 24	39 87xd	42.32	-0 32	8 69
Charities	5¼	78 76	79 90	84 81	-0.57	7 21
Japan	5¼	32.34	32.34	34 33	-0.16	–

Matheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd Hutton, Brentwood, Essex
Enquiries 0277 227300 Dealing 0277 261010

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
UK Growth (14-1)	6	56 63	56.63	60 37	-0 83	4 08
UK High Income	6	29.71	29.71	31 78	-0.32	6.36

NM Unit Trust Mngrs (1200)H
The Bilton Centre, North Harbour, Portsmouth
Enquiries 0705 372222 Dealing 0705 387730

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American ♥	5¼	24.90	24 90	26.56	+0 28	1.92
(Accum Units) ♥	5¼	26 65	26 65	28 42	+0 30	1.92
Australian ♥	5¼	133 10	134 10	143 80	-0 50	2 49
(Accum Units) ♥	5¼	151 60	152 70	163.80	-0 50	2 49
Conscience	5¼	41 48	42.33xd	45 17	-0 47	1 73
(Accum Units)	5¼	43 51	44 41	47.39	-0 49	1 73
European	5¼	120 40	120 40	128 40	-3 00	1 21
(Accum Units)	5¼	127 00	127.00	135 40	-3 20	1 21
Extra Income	5¼	56 11	57 08	60.91	-0 70	10 03
(Accum Units)	5¼	75 22	76 51	81 65	-0 95	10 03
Far East Gth Acc ♥	5¼	88 21	88 21	94.29	-0.29	0.33
Gilt & F I	5¼	51 40	51.40	54 40	-0 17	9 21
(Accum Units)	5¼	104.60	104.60	110.60	-0.30	9.21

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

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FT MANAGED FUNDS SERVICE

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TSB Unit Trusts (1200)H
Charlton Pl, Andover, Hants. SP10 1RE 0264 346794

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	103 56	104 28	110 93	-0 72	0 92
Do Accum	6	113 2	113 99	121 26	+0 79	0 92
TSB Brit Growth	6	61.95	62 95	66 9	-1 95	3 98
Do Accum	6	68 49	68 49	72 86	-2 15	3 98
TSB European	6	60 83	61 22	65 12	-1 21	1 37
Do Accum	6	63 04	63 45	67 49	-1 25	1 37
TSB Extra Income	6	135 9	139 09	147 96	-1 56	6 24
Do Accum	6	192 2	196 71	209 26	-2 20	6 24
TSB Smaller Cos	6	37 12	38 79	41 26	-0 36	3.3
Do Accum	6	38 93	40 67	43 26	-0 3	3.3
TSB General	6	[illegible]	189 [illegible]	201 79	-3	4 43
Do Accum	6	347 63	353 [illegible]	376 5	-5 6	4 43
TSB Premier Income	5	41 78	42 4	44 36	-0 11	9 52
Do Accum	5	73 46	74 55	77 65	-0 2	9.52
TSB Income	6	248 69	253 [illegible]	270.19	-4 23	6 12
Do Accum	6	462 32	472 [illegible]	502 29	-7 86	6 12
TSB Pacific	6	185 49	185 49	197 32	-3 67	0 66
Do Accum	6	193 0	193.0	205 31	-3 82	0.66
TSB International	6	315 4	315 4	335 53	-2 38	1 71
Do Accum	6	404 56	404 56	430 38	-3 96	1.71
TSB Nat Resources	6	56 14	55.29	58 81	+0 2	1 32
Do Accum	6	58 73	59 98	63 8	+0 2	1 32
TSB Sk'd Opps	6	65 45	67.08	71 36	-1.06	4 09
Do Accum	6	78 12	80 06	85 17	-1.27	4 09
Environmental Inv	6	39 08	39 79	42 32	-0 3	2 62
Do Accum	6	39 98	40 7	43 29	-0 3	2 62
TSB Selector	6	40 36	41 2	43 82	-0 36	4 91
Do Accum	6	41 59	42 45	45.15	-0 38	4 91
TSB High Income	6	43 28	43.98	46 78	-0 37	6.73
Do Accum	6	44 56	45 28	48 17	-0 38	6 73
TSB Intl Income	6	47 22	47 38	50 4	-0 07	7 04
Do Accum	6	47.22	47 38	50 4	-0 07	7 04
TSB Selector Income	6	44 06	44 63	47 47	-0 37	6 95
Do Accum	6	44 06	44 63	47 47	-0 37	6 95

Target Trust Mngrs Ltd (1600)F
Target Hse, Gatehouse Rd, Aylesbury, Bucks.
Admin 0296 394000 Dealing 0296 312156

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Eagle	5	58 56	58 56	62 56	-0 17	1 23
Australia	5	5 003	5.003	5 35	[illegible]	[illegible]
Equity	5	136 4	136 4	146 0	-1 7	5 25

M & G Securities Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Charifund	94 7	94 7		10 83
(Accum Units)	528 6	528 6	-0.2	10 83
NAACIF Jan 9	—	39.5	—	10.13

MIM Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Intl Mnge P'folio	928 0	1003.0	—	—
Mngd Pens (Acc)	56.2	59 9	—	—

Morgan Grenfell Unit Trust Managers Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity † Jan 8	110.2	118.1	—	3 25
UK Small Co † Jan 8	421.6	463 2	—	2.31
Fixed Interest † Jan 8	101 4	106 6	—	8 31
US Small Co Jan 8	103.8	111 1	—	0 00
Managed Jan 8	92 55	98.42	—	2 59
Intl Bond Jan 8	107 4	113 3	—	8 05
Japan Jan 8	60 63	64 79	—	1 05
European Jan 8	73 93	79 13	—	1 78
Nth American Jan 8	78.68	84.32	—	1 65

Murray Johnstone UT Mngmt
Murray Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Amer Expt Jan 9	39 1	40 6	—	2 40
Euro Exmt Jan 9	44 4	48 6	—	2 71
Fixed Int Ex Jan 9	44 4	45 6	—	11.25
Japan Expt Jan 9	37 0	38 6	—	0 73
Managed Ex Jan 10	38 0	39 5	—	5 13
SE Asia Expt Jan 9	54 4	57 1	—	7.15
Sm Cos Expt Jan 9	27 3	28 6	—	5 94
UK Eqty Ex Jan 9	35 5	37.2	—	4 69

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Small Co s Jan 1	589 63	631 9	—	5 97
Do Accum	662 4	704 8	—	5 97
Int Expt Jan 9	142 1	144 8	—	2.99
UK Index Jan 2	990 8	1012	—	5.76
Do Accum	1059	1080	—	5 76
Convertible Jan 11	80 14	82 77	-0.20	9 32
World ex UK Index Jan 7	637 6	646 1	—	3 07
Do Accum	637 6	646.1	—	3.07

INSURANCES

OTHER UK UNIT TRUSTS

Liberty Life Assurance Co Ltd
Station Rd, New Barnet 081-440 8210

	Bid Price	Offer Price	+ or -	Yield Gross
Sel Sec A	37.80	39.79	—	—
Managed	31.66	33.33	—	—
Equity	28.01	29.49	—	—
Blue Chip	42.80	45 06	—	—
Special Sits	28 98	30.51	—	—
International	35 23	37 07	—	—
European Fund	10 75	11.32	—	—
American	19 16	20.11	—	—
Pacific	32 54	34.26	—	—
Property	33 45	35.22	—	—

Merchant Investors Assurance Co Ltd — Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
MI Fram Inc & Growth	161.1	169.5	-0.2	—
MI Fram Intl Growth	118.4	124.6	+1.3	—
MI Fram Japan & Gen	175.1	184 3	+2.1	—
MI Fram Recovery	140.5	147 8	+0.5	—
MI Gar Int Fixed Int	97.2	102.3	-0.3	—
MI Gar Glob Inc & Gth	117.6	123.7	-0.3	—
MI Gar Gold & Intl Res	82.9	87.2	+0.2	—
MI Gar Pacific Gwth	116 6	122.7	-0.4	—
MI Gar Smaller Co's	134 9	142.0	-0.5	—
MI Henderson Fd	160 7	169 1	+0.9	—

Continued on next page

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N & P Life Assurance Ltd
6-7 Bedford Row, London. WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	88.3	93.0	-1.0	-
Pension Managed Fd	84.5	88.9	-0.9	-
Life Deposit Fd	103.7	109.1	+0.1	-
Pension Deposit Fd	107.3	113.0	+0.2	-

National Financial Management Corp PLC
72 Gatehouse Rd, Aylesbury, HP19 3XJ 0296 395539

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Managed Cautionary	97.7	102.9	-0.4	-
Managed Growth	119.4	125.7	...	-
Managed Opportunity	112.9	118.9	-0.6	-
NFMC Target Financial	84.4	88.9	-0.5	-
Pension Funds				
Managed Cautionary	105.8	111.4	-0.2	-
Managed Growth	123.4	129.9	-1.1	-
Managed Opportunity	115.3	121.4	-0.3	-
NFMC Target Mngd Pen	1289.2	1357.1	-17.7	-

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	139.0	146.4	----	-
UK Equity	144.1	151.7	----	-
Overseas Equity	108.5	114.3	----	-
Fixed Interest	135.9	143.1	----	-
Property	125.2	131.8	----	-
Index Linked	143.5	151.1	----	-
Deposit	148.6	156.5	----	-
With Profits (8)	124.8	131.3	----	-

Prosperity Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

	Bid Price	Offer Price	+ or -	Yield Gross
Initial Equity	135.0	142.5	-2.0	-
Accum Equity	190.5	201.0	-2.5	-
Accum Managed	196.0	207.0	-1.5	-
Accum Five Star	146.5	154.5	...	-
Accum World	105.5	111.5	-0.5	-
Accum Lifetime	98.8	98.8	-1.0	-
Pens Acc Equity	197.5	208.5	-3.5	-
Pens Acc Managed	230.0	243.0	-2.5	-
Pens Acc Intl	165.0	174.0	-1.0	-
Pens Acc Deposit	189.5	200.0	...	-
Pens Acc Five Star	153.0	161.5	-0.5	-

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity Acc	191.9	202.5	-2.8	-
UK Fixed Int Acc	165.6	174.7	+0.1	-
Intl Equities Acc	146.2	154.3	+2.2	-
UK Managed Acc	153.5	161.9	-0.9	-
Property Acc	226.0	238.4	...	-
Money Acc	124.7	131.6	+0.1	-
Special Market Acc	117.5	124.0	-1.0	-
Japan Equity Acc	86.3	91.1	-0.4	-
North American Acc	82.9	87.5	+0.5	-
Pacific Acc	73.0	77.1	+1.2	-
Technology Acc	92.2	97.3	+0.5	-
Nat Resources Acc	54.3	57.3	+0.1	-
European Acc	85.7	90.5	-0.5	-
Residential Prop Acc	95.8	101.1	-0.1	-
Swiss Equities Acc	29.0	30.6	-0.8	-
Hong Kong Acc	47.3	49.9	-0.1	-
UK High Inc Eq Acc	61.8	65.2	-1.0	-
Int Fixed Interest Acc	53.5	56.5	+0.1	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

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	Bid Price	Offer Price	+ or -	Yield Gross
Nikko Capital Mngt (Europe) Ltd				
Japan Index Fund	Y2 507	2 583	...	-
New Generation Fd $	$18 96	19 76	...	-
Japan Sector Alpha	Y7 992	8 111	...	-
Jap Sector Rotation	Y6 360	6 463	...	-
Jap Gag Gwth CB	[illegible]	[illegible]	...	-
Saudi International (Guernsey) Ltd				
Intl Bond	$10.33	10 53	...	-
Intl Dollar	$10 32	10 31	...	-
Intl Equity	$10.54	10 90	...	-
Falcon High Income	$89.37	89.37	...	-
Schroder Investment Mngmt (Guernsey) Ltd				
Latin American	3$-		-	-
Sovereign Asset Management Limited				
Olympic Options Ltd	£9 1694	9 4754	...	-
Stonehage Fund Mngrs Ltd				
Intl Man Fd	$11 40	11 46	...	-
U.S. Treasury Securities Fund Ltd				
Short Term Shares		$746 62	...	-
Fixed Income Shares		$868 90	...	-
Yamaichi Capital Mangmt (Guernsey) Ltd				
Japan Mega Growth		$9.98	-0 09	-
Yamaichi ISS Fund		$6 94	-0 05	-
Yamaichi CB Plus Fund		$7 75	-0 07	-
Thai Inv Fund		$9 01		-

IRELAND (SIB RECOGNISED)

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Grs
GAM Fund Management Ltd (u)						
29 Kildare Street, Dublin				010 353 1760 630		
GAM Universal US Dlr Acc		$-	100 77		...	-
GAM Universal US Dlr Inc		$-	100 77		...	-
GAM Universal DM Acc		DM-	100 09		...	-
GAM Universal DM Inc		DM-	100 09		...	-
MI Global Asset Mngmt Co Ltd "MI Trusts"						
MI Global Dollar		$-	0 94	1 00	...	-

IRELAND (REGULATED)(**)

Baring International Fd Mngrs (Ireland) Ltd

Australia	$12 95	13 61	-0 13	1 05
Japan Tech	$52 80	55 45	+0 05	-
Japan Fund	$22 82	23 97	-0 05	0 37

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

PO Box 63, Bond Street St Helier, Jersey

INVESCO MIM International Limited

PO Box 271, St Helier, Jersey

Lloyds Bank (CI) U/T Mgrs.

PO Box 195 St Helier, Jersey

Dealing daily

Midland Bank Fund Managers (Jersey) Ltd

PO Box 26 St Helier Jersey

Royal Trust Jsy Fd Mngt Ltd (1400)F

PO Box 428, St Helier, Jersey

TSB Trust Funds (CI)

PO Box 538 St Helier, Jersey

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

هكذامن الأهل

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and sterling in demand

THE DOLLAR and sterling were in demand on the foreign exchanges yesterday as dealers looked for safe havens ahead of the United Nations deadline for Iraqi withdrawal from Kuwait.

The failure of talks between the US and Iraq and of the weekend peace mission to Baghdad by Mr Javier Perez de Cuellar, UN secretary general, was followed yesterday by news that the Iraqi parliament had voted to defend militarily its hold on Kuwait.

World tension inevitably increased the appeal of the dollar, and Britain's position as an oil producer pushed sterling higher as North Sea oil prices climbed $3½ on the threat to supplies from the Middle East.

By the London close the dollar had climbed to DM1.5445 from DM1.5325; to Y135.00 from Y134.20; to SFr1.2825 from SFr1.2795; and to FFr5.2375 from FFr5.2000. On Bank of England figures the dollar's index gained 0.2 to 62.0.

Sterling advanced to its highest level against the D-Mark since November 1, and continued to gain ground in the European Monetary System. Apart from the Gulf crisis, the pound was supported by high Londo · interest rates and a general decline of the D-Mark in reaction to unrest in the Soviet Union.

This allowed sterling to shrug off news of surprisingly strong UK retail sales in December. Analysts said the rise of 1.9 per cent – the largest monthly gain since May 1989 – was almost certainly an aberration and, given the depressed state of the economy, is unlikely to herald an upturn in demand.

The pound shed 20 points to $1.9050 against the firm dollar but rose to DM2.9425 from DM2.9225, moving close to its central point of DM2.9500 within the EMS exchange rate mechanism. Sterling also improved to FFr9.9775 from FFr9.9175; to SFr2.4425 from SFr2.4400; and to Y257.25 from Y256.00. Its index closed 0.5 higher at the day's peak of 94.2. In New York, the pound ended a shade firmer at $1.9055.

The D-Mark suffered from the news that Soviet troops had killed demonstrators and occupied public buildings in the Baltic republic of Lithuania. Fear that unrest in the Soviet Union would damage the trend towards liberalisation in eastern Europe, at a time when the market is also worried about the cost of German unification, put pressure on the German currency.

Within the ERM the French franc remained the weakest member, below the Danish krone and sterling. Lack of demand for the D-Mark kept pressure off the system. In Frankfurt the Bundesbank did not intervene when the dollar was fixed at DM1.5476, up from a previous DM1.5353 and the highest fixing since October 2.

In Paris the D-Mark was fixed little changed at FFr3.3938, against FFr3.3920, but later lost ground to the franc. In Milan the German currency declined to L751.70 from L752.40 at the fixing.

£ IN NEW YORK

Jan.14	Close	Previous Close
£ Spot	1.9050-1.9060	1.9070-1.9080
1 month	1.17-1.16pm	1.13-1.11pm
3 months	2.86-2.84pm	3.02-2.99pm
12 months	9.19-9.12pm	9.52-9.42pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan.14	Previous
8.30 am	93.8	93.8
9.00 am	93.8	93.8
10.00 am	93.8	93.8
11.00 am	93.8	93.7
Noon	94.0	93.7
1.00 pm	93.9	93.7
2.00 pm	93.9	93.8
3.00 pm	94.1	93.7
4.00 pm	94.2	93.7

CURRENCY MOVEMENTS

Jan 14	Bank of England Index	Morgan** Guaranty Changes %
Sterling	94.2	–18.5
U.S Dollar	62.0	–17.2
Canadian Dollar	103.2	+1.0
Austrian Schilling	109.8	+12.0
Belgian Franc	112.2	–1.8
Danish Krone	110.2	+4.7
D-Mark	119.4	+25.5
Swiss Franc	117.0	+25.3
Dutch Guilder	114.9	+16.6
French Franc	104.3	–12.1
Lira	99.4	–19.6
Yen	131.2	+65.3

Morgan Guaranty changes. average 1980-1982=100. Bank of England Index (Base Average 1985=100). **Rates are for Jan.11.

CURRENCY RATES

Jan 14	Bank rate %	Special ^ Drawing Rights	European † Currency Unit
Sterling	–	0.741781	0.698513
U.S Dollar	7	1.41198	1.32298
Canadian $	12.82	1.62702	1.52169
Austrian Sch	6½	15.2607	14.4351
Belgian Franc	10¼	44.7103	42.2230
Danish Krone	9½	8.34480	7.88762
D-Mark	6.00	2.16781	2.05168
Dutch Guilder	7.25	2.44555	2.31271
French Franc	10¼	7.35571	6.96087
[illegible]	[illegible]	[illegible]	[illegible]

† European Commission Calculations. ^ All SDR rates are for Jan.11

OTHER CURRENCIES

Jan 14	£	$
[illegible]	[illegible]	[illegible]
Iran	124.70*	65.10*
Korea(Sth)	1346.85 - 1368.60	715.00 - 720.60
Kuwait	N/A	N/A
Luxembourg	60.45 - 60.55	31.70 - 31.80
Malaysia	5.1820 - 5.1905	2.7220 - 2.7240
Mexico	5637.10 - 5640.30	2956.00 - 2957.00
N.Zealand	3.2070 - 3.2120	1.6820 - 1.6850
Saudi Ar	7.0570 - 7.1110	3.7490 - 3.7510
Singapore	3.3675 - 3.3650	1.7625 - 1.7645
S.Af (Cm)	4.9395 - 4.9615	2.5970 - 2.6000
S.Af (Fn)	6.2690 - 6.3740	3.2895 - 3.3445
Taiwan	51.85 - 51.95	27.20 - 27.25
U A E	6.8880 - 6.9880	3.6720 - 3.6740

* Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Jan 14	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	128.898	–3.54	4.66	62
Belgian Franc	42.4032	42.2230	–0.42	1.38	25
D-Mark	2.05586	2.05168	–0.20	1.16	19
Dutch Guilder	2.31643	2.31271	–0.16	1.12	13
Irish Punt	0.767417	0.766680	–0.10	1.05	9
Italian Lira	1538.24	1541.61	0.22	0.73	–6
Sterling	0.696904	0.698513	0.23	0.72	–5
Danish Krone	7.84195	7.88762	0.58	0.37	–22
French Franc	6.89509	6.96087	0.95	0.00	–47

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Jan 14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.39-5.34pm. 12 Month 9.28-9.18pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jan 14	Day's spread	Close	One month	% p.a.	Three months	% p.a.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Jan 14	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXCHANGE CROSS RATES

Jan 14	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DM	0.340	0.647	1	87.43	3.390	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN	3.887	7.404	11.44	1000.	38.78	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
F Fr.	1.002	1.909	2.949	257.9	10.	2.448	3.322	2215	2.196	60.63
S Fr.	0.409	0.780	1.205	105.3	4.084	1	1.357	904.6	0.897	24.76
H Fl.	0.302	0.575	0.888	77.62	3.010	0.737	1	666.7	0.661	18.25
Lira	0.452	0.862	1.332	116.4	4.515	1.105	1.500	1000.	0.991	27.38
C $	0.456	0.869	1.343	117.4	4.554	1.115	1.513	1009	1	27.61
B Fr.	1.653	3.149	4.864	425.3	16.49	4.038	5.479	3653	3.621	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE BUND FUTURES OPTIONS; LIFFE EUROMARK OPTIONS; LIFFE EURODOLLAR OPTIONS; LIFFE SHORT STERLING OPTIONS

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT; US TREASURY BONDS 8%; 6% NOTIONAL GERMAN GOVT. BOND; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND; THREE MONTH STERLING; THREE MONTH EURODOLLAR; THREE MONTH EUROMARK; THREE MONTH ECU; FT-SE 100 INDEX

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9050	1.8934	1.8760	1.8514	1.8127

IMM-STERLING $s per £

	Close	High	Low	Prev.
Mar	1.8806	1.8900	1.8726	1.8854
Jun	1.8552	1.8640	1.8470	1.8859
Sep	-	-	1.8280	1.8372

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; U.S. TREASURY BILLS (IMM); JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); SWISS FRANC (IMM); THREE-MONTH EURODOLLAR (IMM); STANDARD & POORS 500 INDEX; PHILADELPHIA SE £/$ OPTIONS; 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES; OPTION ON LONG-TERM FRENCH BOND (MATIF); THREE-MONTH PIBOR FUTURES (MATIF)

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Estimated volume 7,250 Total Open Interest 21,646

CAC-40 FUTURES (MATIF) Stock index

	Open	Close	Change	High	Low	Open Int.
January	1468.0	1437.0	-61.0	1469.0	1437.0	7,382
February	1475.0	1449.0	-61.0	1475.0	1449.0	916
March	1485.0	1485.0	-33.0	1485.0	1485.0	210
June	-	-	-	-	-	0

Estimated volume 10,212 Total Open Interest 8,508

BASE LENDING RATES

	%		%		%
ABN Bank	14	Co-operative Bank	14	Nat Bk. of Kuwait	15
Adam & Company	14	Coutts & Co	14	NatWestminster	14
Allied Trust Bank	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
AIB Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
● Henry Ansbacher	14	Duncan Lawrie	14	Provincial Bank PLC	15
Associates Cap Corp	15½	Equatorial Bank plc	14	Roxburghe Bank Ltd.	14½
● B & C Merchant Bank	14	Exeter Bank Limited	14½	Royal Bk of Scotland	14
Bank of Baroda	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank of Cyprus	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Ireland	14	Girobank	14	Unibank plc	14
Bank of India	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of Scotland	14	● Hambros Bank	14	United Mizrahi Bank	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Unity Trust Bank Plc	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Western Trust	14
Benchmark Bank	14	● Hill Samuel	14	Westpac Bank Corp.	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Whiteaway Laidlaw	14
● Brown Shipley	14	Hongkong & Shangh	14	Yorkshire Bank	14
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk.	14		
Clydesdale Bank	14	Midland Bank	14		
Comm.Bk. of London Plc	14	Mount Banking	14		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKETS

Short sterling rises

LONGER TERM rates had a slightly firmer tone on the London money market, fearing the inflationary pressure of a war in the Gulf. However, short sterling futures ignored this, concentrating on a surge in demand for the pound.

There was little reaction to an unexpected rise of 1.9 per cent in December UK retail prices. Three-month sterling interbank was unchanged at 14-13$\frac{15}{16}$ per cent, but 12-month money was quoted at 13⅛-13 per cent compared with 13$\frac{1}{16}$-13.

UK clearing bank base lending rate 14 per cent from October 8, 1990

Short sterling opened weaker on Liffe, but gained ground as the pound improved on rising oil prices. March delivery opened at 86.73 and touched a low of 86.69, close to a support level of 86.67. The contract then rebounded sharply as fear of war in the Gulf boosted oil prices, while unrest in the Soviet Union depressed the D-Mark, sending the pound higher. It rose to a peak of 86.91 and closed at 86.90 against 86.77 on Friday.

Day-to-day credit was in short supply on the London money market. The Bank of England initially forecast a shortage of £1,150m, but revised this to £950m at noon.

Total assistance of £977m was provided. An early round of help was offered and at that time the authorities bought £206m bills outright, by way of £13m bank bills in band 1 at 13⅞ per cent and £193m bank bills in band 2 at 13¾ per cent. Before lunch another £540m bank bills were purchased in band 2 at 13¾ per cent.

In the afternoon £146m bills were bought, via £24m bank bills in band 1 at 13⅞ per cent and £122m bank bills in band 2 at 13¾ per cent. Late assistance of around £85m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,257m, with the unwinding of bill repurchase agreements absorbing £922m and bank balances below target £25m. These outweighed exchequer transactions adding £435m to liquidity and a fall in the note circulation of £615m.

In Frankfurt call money rose to 8.60 from 8.55 per cent, despite market reports that the Bundesbank added liquidity via money held by the central bank on behalf of public authorities.

In Amsterdam the Dutch central bank left its money market intervention rate at 8.80 per cent, when injecting liquidity through six-day special advances.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan.14) 3 months US dollars		6 months US Dollars	
bid 7¼	offer 7⅜	bid 7¼	offer 7⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm					
Prime rate	9½	One month	6.34	Three year	7.37
Broker loan rate	9	Two month	6.45	Four year	7.62
Fed funds	6¾	Three month	6.31	Five year	7.78
Fed.funds at intervention	6¾	Six month	6.50	Seven year	8.05
		One year	6.61	10-year	8.19
		Two year	7.14	30-year	8.37

Jan.14	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.55-8.65	8.90-9.00	9.10-9.25	9.20-9.35	9.35-9.50	8.50
Paris	10$\frac{1}{16}$-10$\frac{3}{16}$	10⅛-10¼	-	10$\frac{1}{16}$-10$\frac{3}{16}$		9.25
Zurich	7⅞-8¼	8⅝-8⅞	-	8⅝-8⅞	-	-
Amsterdam	8.13-8.38	9.25-9.40	-	9.35-9.50	-	-
Tokyo	7$\frac{11}{16}$-7$\frac{13}{16}$	8⅛-8⅜	-	8⅛-8⅜	-	-
Milan	12⅝-12¾	13⅛-13⅜	-	13⅛-13⅜	-	-
Brussels	5.00	9$\frac{15}{16}$-10	-	10-10⅛	-	-
Dublin	10$\frac{15}{16}$-11$\frac{1}{16}$	11⅛-11¼	11$\frac{3}{16}$-11$\frac{5}{16}$	11$\frac{3}{16}$-11$\frac{5}{16}$	11¼-11⅜	-

LONDON MONEY RATES

Jan 14	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14¼	14¼	14¼	14$\frac{1}{16}$	13¾	13⅛
Interbank Bid	8	14	14⅛	13$\frac{15}{16}$	13½	13
Sterling CDs	-	-	14$\frac{1}{16}$	14	13¾	13¼
Local Authority Deps.	13⅞	14	14⅛	13$\frac{15}{16}$	13⅝	13⅛
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	14	14	13⅞	13	-	-
Company Deposits	-	-	14$\frac{1}{16}$	14	13⅝	13⅛
Finance House Deposits	-	-	14⅛	14	13$\frac{9}{16}$	13
Treasury Bills (Buy)	-	-	13$\frac{13}{16}$	13$\frac{13}{16}$	-	-
Bank Bills (Buy)	-	-	13¾	13⅞	12$\frac{15}{16}$	-
Fine Trade Bills (Buy)	-	-	14⅛	14⅛	13⅝	-
Dollar CDs	-	-	7.45	7.47	7.47	7.50
SDR Linked Dep. Offer	-	-	8¼	8$\frac{11}{16}$	8$\frac{11}{16}$	8$\frac{11}{16}$
SDR Linked Dep. Bid	-	-	8⅛	8$\frac{9}{16}$	8$\frac{9}{16}$	8$\frac{9}{16}$
ECU Linked Dep. Offer	-	-	10⅜	10⅝	10$\frac{11}{16}$	10¼
ECU Linked Dep. Bid	-	-	10¼	10½	10½	10⅛

Treasury Bills (sell); one-month 13$\frac{13}{16}$ per cent; three months 13⅝ per cent; six months 12$\frac{15}{16}$ per cent; Bank Bills (sell): one-month 13$\frac{11}{16}$ per cent; three months 13$\frac{11}{16}$ per cent; Treasury Bills; Average tender rate of discount 13.0826 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day December 31, 1990. Agreed rates for period Jan 26, 1991 to Feb 25, 1991. Scheme I. 14.54 p.c. Schemes II & III: 15.09 p.c. Reference rate for period Dec 1, 1990 to Dec 31, 1990. Scheme IV&V: 13.843 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from January 1, 1991: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 11½ per cent. Under £100,000 10½ per cent from Oct 8, 1989. Deposits withdrawn for cash 5 per cent.

COMPANY NOTICES

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JOTTER PAD

CROSSWORD

No.7,442 Set by HIGHLANDER

ACROSS

1 First of gourmets to call for game and beef (6)
4 Bob is one taking less lengthy route (3,5)
10 Is night vision affected? (7)
11 Heath grips one colleague with injured leg (7)
12 What caterpillar eats (4)
13 Fighting fit, affording grounds for litigation (10)
15 Overdrawn: debts are horrid (6)
16 Potter's original demonstration (7)
20 The Tempest put on among a series of events (7)
21 Religious work abridged lazily but enthusiastically (6)
24 A child to me is disordered, not disorderly (10)
26 In hot, torrid weather, covering oil is essential (4)
28 Wine is near its original condition (7)
29 Move faster than when not in step together (7)
30 Eavesdropper's false statement about gum found by river (8)
31 Brother has to know it's smashed (6)

DOWN

1 Leaving heir with dubious actions (6-2)
2 Old boy's dog has it, an unknown quantity in unclear circumstances (9)
3 Very wise after second time (4)
5 Difficult to take in every bit of one nautical line (8)
6 Strange current to local thinking (10)
7 Caught arm in scale (5)
8 In a children's game, caught and identified (6)
9 Basic raw materials kept on business premises (5)
14 Topping device for stopping further discussion (10)
17 Divert boundary line (9)
18 Make a suggestion that is deeply personal (8)
19 The French beginner first, then an Austrian (8)
22 Spoken by American leaders lacking ethics (6)
23 Old Italian house: a good place to eat cabbage (5)
25 Carried arms books about (5)
27 The way I run creates strong reaction (4)

Solution to Puzzle No.7,441

Continued on Page 31

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | GERMANY | ITALY | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Closing prices January 14

[illegible]

MONTREAL

Closing prices January 14

[illegible]

INDICES

NEW YORK

DOW JONES	Jan. 14	Jan. 11	Jan. 10	Jan. 9	1990-91 HIGH	1990-91 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2483.91	2501.49	2498.76	2470.30	2999.75 (16/7/90)	2365.10 (11/10/90)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	91.38	91.67	91.57	91.63	93.04 (3/1/90)	88.44 (24/9/90)	95.51 (9/2/87)	54.99 (1/10/81)
Transport	898.80	905.45	904.42	895.80	1212.77 (6/6/90)	821.93 (17/10/90)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	201.65	204.35	205.55	204.85	236.23 (2/1/90)	190.96 (24/8/90)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2500.99 (2516.09) Low 2447.03 (2472.77)

STANDARD AND POOR'S

	Jan. 14	Jan. 11	Jan. 10	Jan. 9	1990-91 HIGH	1990-91 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	312.49	315.23	314.53	311.49	368.95 (16/7/90)	295.46 (11/10/90)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	366.64	369.56	368.54	364.90	437.37 (16/7/90)	346.86 (11/10/90)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	22.01	22.23	22.19	21.96	31.87 (3/1/90)	18.80 (29/10/90)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	171.21	172.78	172.43	170.97	201.13 (16/7/90)	162.20 (11/10/90)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	296.72	298.76	299.01	298.12	382.45 (5/1/90)	288.07 (30/10/90)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	355.75	361.80	361.92	357.45	469.60 (16/7/90)	325.44 (16/10/90)	485.73 (9/10/89)	54.87 (31/10/72)

	Jan. 11	Jan. 4	Dec 28	year ago (approx.)
Dow Industrial Div. Yield	4.13	4.02	3.92	3.96

	Jan. 9	Jan. 2	Dec 26	year ago (approx.)
S & P Industrial div. yield	3.52	3.35	3.31	2.94
S & P Indl. P/E ratio	15.01	15.76	15.92	14.80

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Bay Ptc	2,722,500	17⅛	+⅛
AT & T	2,006,600	29⅝	−½
Philip Morris	1,860,400	48¾	−⅛
IBM	1,746,500	106¾	+1⅛
Limited	1,406,400	19	−⅝
Gen. Electric	1,378,900	54⅝	+⅛
Wal-Mart	1,353,400	29⅝	−⅝
Pepsico	1,344,000	24⅜	−⅛
Coca Cola	1,298,700	44⅞	+⅜
Schering-Pl	1,290,500	41⅛	−1⅛

TRADING ACTIVITY

† Volume		Millions Jan. 11	Jan. 10
New York	120.830	123.050	124.510
Amex	8.198	7.180	7.887
NASDAQ	(u)	107.649	110.143
Issues Traded	1,992	1,980	1,984
Rises	356	751	885
Falls	1,197	681	602
Unchanged	439	548	497
New Highs	10	13	5
New Lows	81	40	44

CANADA

TORONTO	Jan. 14	Jan. 11	Jan. 10	Jan. 9	1990-91 HIGH	1990-91 LOW
Metals & Minerals	2641.03	2686.21	2694.71	2632.06	3453.05 (4/1/90)	2486.60 (8/11/90)
Composite	3167.50	3183.59	3196.82	3169.64	4009.47 (3/1/90)	3009.91 (16/10/90)
MONTREAL Portfolio	1692.78	1696.31	1706.91	1686.89	2060.90 (3/1/90)	1607.24 (16/10/90)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Jan. 14	Jan. 11	Jan. 10	Jan. 9	1990-91 HIGH	1990-91 LOW
AUSTRALIA ... WORLD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

TOKYO - Most Active Stocks

Monday 14 January 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Honshu Paper	8.3m	1,150	−50	NKK	2.5m	389	0
Nippon Steel	3.8m	453	0	S'tomo Metal	2.3m	452	−4
Daiwa Corp	2.7m	1,350	+10	Marubeni	2.3m	685	+10
C Itoh	2.6m	891	−29	M'bishi Heavy	2.3m	676	+2
Hitachi	2.5m	1,100	0	Daishowa Paper	1.6m	2,380	−80

AMEX COMPOSITE PRICES

4pm prices January 14

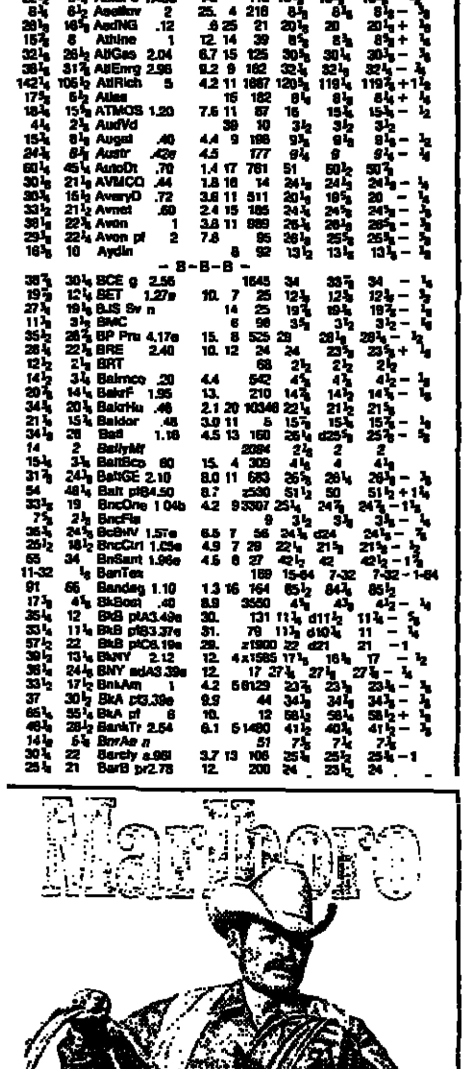
[illegible]

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4pm prices January 14

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
33½	9⅛	AAR	.48	4.7	8	1378	10⅛	10	10⅛	– ⅛
8⅝	7⅛	ACM	n1.03e	12.		177	8⅞	8¼	8⅜	– ⅛
11⅞	8¼	ACMIn	1.26	12.		1008	10⅝	10½	10½	– ⅛
9⅛	6½	ACM M	n1.01	13.		252	7⅞	7¾	7⅞	
12¼	10	ACMMM	1.50	12.		279	12⅛	11⅞	12⅛	
11½	8⅝	ACM Sc	1.26	13.		1719	10¼	10	10	– ⅛
9⅞	7¼	ACMSp	1.01	12.		379	8⅝	8½	8½	
26¼	17	AL Lab	.16	.7	18	282	22	21⅝	21⅝	– ⅜
4	1	AM Intl				134	1⅛	1	1	
18⅞	4⅞	AM In pf	2	28.		58	7½	7	7⅛	– ½
70¼	39¾	AMR			14	6334	46⅛	45	46⅛	– ⅛
4	1¼	ARX				61	1⅜	1¼	1⅜	
72¾	38¼	ASA	3	6.3		1804	48¼	47¼	47½	+ ⅜
3½	1⅞	ATTC wt				205	3⅛	3	3	+ ⅛
48⅝	31⅛	AbtLab	s.84	2.1	19	6024	40¼	39¼	39¾	– 1
14	9⅞	Abitibi	g.50			62	10	9⅞	10	
10⅞	4½	AcmeC	.40	8.0	11	47	6⅛	4⅞	5	
9⅝	5	AcmeE	.32	6.1	9	6	5⅛	5⅛	5⅛	+ ⅛
32¾	18⅞	Acuson	s		20	1159	25⅛	24⅛	25⅛	– ⅛
16⅞	14⅛	AdaEx	1.72e	12.		195	14½	14¼	14¼	– ⅛
14½	8⅝	Adobe				7	9	8⅞	8⅞	– ⅛
19⅞	16	Adob pf	1.84	11.		5	17⅛	17⅛	17⅛	
21⅝	18⅞	Adob pf	2.40	12.		33	20	19⅞	20	+ ½
11⅞	3⅝	AMD				2541	4⅞	4⅜	4⅜	– ⅛
32⅛	13	AMD pl	3	16.		32	20	18¼	18¼	– 1
7½	1⅜	Advest	.16	6.7		49	2½	2⅜	2⅜	– ⅛
56	29	AetnLf	2.76	7.9	8	1411	35	34¾	34⅞	– ½

[illegible]



Continued on Page 41

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
58¾	29	Xerox	3	7.6		73478	39⅛	38⅝	39½	-½
48½	42½	Xerox pf4.13		9.2		1	45	45	45	+1
32⅞	13	XTRA	.72	4.8		367	15½	14⅞	15	-⅛
25	12½	XTRA pf1.94		13.		1	15¼	15¼	15¼	+½
3⅝	5-16	Zapata				242	15-16	⅞	⅞	+1-16
8	3	Zemex				5	4⅛	4⅛	4⅛	-⅛
12½	4	ZenithE				354	6¾	6½	6⅝	-¼
16⅝	9⅞	ZenNtl	1	7.8	8	116	13	12¾	12¾	-½
7¼	4⅜	Zenix	.93	21.		187	4⅝	4½	4½	-⅛
16¾	9⅞	Zero	.40	3.6	12	41	11	10⅞	11	-⅛
51⅛	29⅝	Zurnin	.88	2.8	14	230	31½	31⅛	31½	
12	10⅛	Zweig	1.07e	10.		527	10½	10¼	10¼	-¼
10	7⅞	ZweigTl	.96	11.		1463	9	8¾	8⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

3pm prices January 14

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
[illegible]							
Willamt	1.60a	6	590	40¼	38¾	39¼	-¼
WmSon	s	16	225	17	16½	16½	-1
WlmTr	1.44	10	257	38	37	37¼	-½
WiserO	.40a	26	31	14⅛	d14½	14⅛	+⅛
Wolohn	.28b	7	81	13	12¾	13	-⅛
WlvExp			470	2¾	d 2⅛	2⅛	-½
WlvEx pf2.25			188	9	d 8¼	8⅞	-¼
Worthg	.60	15	1114	21⅛	20⅞	20⅞	-⅛
Wyman	.80		150	6⅝	6¼	6¼	-⅝
-X-Y-Z-							
XL Dta		5	7	6½	6¼	6¼	
XOMA			1591	18¾	18	18½	-¾
Xilinx			351	14⅛	13⅛	13½	-¾
YanEnS	1.52	12	52	21	19¾	19¾	-½
YelowF	.94	31	988	27⅞	27½	27⅝	-½
YorkRe		10	562	8¾	8	8½	-⅝
Zeos		16	141	15	14	14	-1¼
ZionBc	1.44	7	44	29¼	28¼	28¼	-1¼

FINANCIAL TIMES Tuesday January 15 1991

War or peace in the Gulf: advisers map out their strategies

FACED WITH the immediate prospect of war in the Gulf, European investment advisers have been formulating strategies – some of them more active than others – for their international institutional clients.

If it is to be war, Mr David Roche, strategist at the US-owned Morgan Stanley's London office, expects the average oil price to rise to between $35 and $40 a barrel this year, declining to $18 to $25 in 1992. Global recession would be accompanied by heightened inflationary fears, tight money and high interest rates.

Eastern Europe would experience extreme difficulties which, says Mr Roche, would increase the need to restructure and solidify democratic regimes in former Comecon countries. Western Europe would bear the financial weight of this process, implying restricted domestic growth, yet more corporate investment, "piles" of new equity issues and less investment liquidity with which to buy them.

His limited portfolio strategy for the war scenario is to keep investors in cash and gold, waiting to buy bonds later. Meanwhile, they should pick up a few selected "oil in the ground" stocks, such as Saga, of Norway, and Elf Aquitaine, of France, and east European reconstruction stocks such as Mannesmann, of Germany.

In the event of peace, oil would fall to $18 a barrel this year and be at $21 next, says Mr Roche. "Before long," he adds, "the euphoria of peace will wear off as the perception grows of increased political risk in the Middle East." But he would predict global bond and equity rallies, led by the Far East, though Europe would do well, particularly in cyclical stocks such as Lufthansa, Thyssen and big chemicals.

At B Metzler, in Frankfurt, Mr Werner Wanke says that most of his clients have been fairly defensive for several months. "August 2, the day of the invasion of Kuwait, accelerated all the correction processes in the market from six months to six weeks," he says.

"There is no speculative overhang at the moment," he adds. "On the contrary, a lot of people are very short." If there was no war threat, he thinks that bond yields should be at least 100 basis points lower than they are and equities should benefit accordingly. "If there is war," he says, "this will not indicate a new trend in equity markets, but merely an extension of the existing one."

New highs for bond yields and new lows for the equity market would still be in order.

In Paris, the opinion is that, in the event of war, the immediate reaction of the French bourse would be the same as that of the other markets. One analyst says: "We expect the market to fall, on the assumption that the oil price will rise short-term, and then equities should recover." He says that there could be a further downside of 5 per cent on the first gunshot.

Mr David Harrington of DLP James Capel, in Paris, says investors must be prepared for a very volatile six months. "Even if the war is over quickly, it will not be a joyride for the rest of the year because Paris has problems other than the Gulf, such as 1990 corporate earnings and the sharp slowdown in economic growth," he says. He points out that, from a technical standpoint, the market looks good value, but does not anticipate a sustained rally within the first half of the year.

Mr Rob Sweers at Banque Paribas Nederland feels the Dutch market anticipated a negative outcome in the Gulf by dropping 2.8 per cent yesterday. He expects it to fall between a further 5 to 10 per cent with also a sharp rise in short-term interest rates if war starts on or after Wednesday.

Share prices should bounce back after a couple of days as institutions buy quality stocks, such as Unilever, other food companies and publishers at lower levels. However, Mr Sweers warns that a lengthy war would lead to another downturn. "The consensus of the market, in spite of what defence strategists say, is that it will be a quick war which will be over in a matter of days or weeks," he says.

The picture is similar in Milan, although brokers have noticed lively buying of February call options in leading stocks such as Montedison, Fiat and Generali, which anticipate a bounce in the market within one month. However, a broker points out that foreign institutions are unlikely to return to the market in a big way in the event of a bounce, because the economic fundamentals of the Italian market are still poor.

Mr Paul Farrow, head of research at FG Inversiones Bursátiles, the Spanish brokers, also expects an immediate fall of 5 per cent if fighting begins. After that, he expects the Madrid market to recover. "I get the feeling that there are a lot of people looking to buy, who are just trying to pick the bottom," he says.

If Saddam agrees at the last minute to withdraw peacefully, however, he expects the market to rise sharply and then fall back, as investors take advantage of the rally to realise their profits. "The market will either go up and then down, in the case of withdrawal, or down and then up, in the event of war; in either case there will be a fairly strong correction," he predicts.

Back in London, Mr Roger Palmer of Kleinwort Benson says this is one of the rare occasions where action on the axiom, "buy on the bullet", would be a mistake. "Even though equity markets, broadly speaking, look cheap," he adds, "in the event of war I would expect last October's lows to be retested."

Even in the event of new 1990-91 lows, investors should be ready to move. "In today's thin markets," says Mr Palmer, "they will need to get their money to work before the low, during the low and immediately after it." He expects that European equities would move very fast, with both the downside and upside exaggerated.

If war is avoided, he adds, equities will move up strongly, but from a higher base. In either case, he thinks that bourses will then fall back as people refocus on recession.

Reporting by William Cochrane, Jacqueline Moore and Antonia Sharpe

MARKETS IN PERSPECTIVE

	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1991	% change sterling † Start of 1991	% change in US $ † Start of 1991
Austria	−4.72	−12.09	−24.77	−6.71	−7.53	−8.68
Belgium	−2.45	−6.11	−29.38	−3.17	−3.81	−5.01
Denmark	+0.43	−6.78	−19.01	−2.29	−3.16	−4.36
Finland	−5.54	−8.13	−38.49	−8.67	−8.75	−9.88
France	−2.10	−6.73	−28.38	−1.09	−1.93	−3.14
Germany	−1.47	−8.91	−24.02	−1.60	−2.72	−3.93
Ireland	−1.87	−10.33	−36.32	−4.95	−5.53	−6.70
Italy	−3.61	−9.01	−32.65	−2.33	−3.17	−4.37
Netherlands	−1.22	−1.45	−17.75	−1.12	−2.18	−3.39
Norway	−3.55	−9.97	−21.34	−6.59	−7.15	−8.31
Spain	−2.04	−8.25	−26.26	−2.39	−2.24	−3.46
Sweden	−1.21	−7.73	−32.05	−3.88	−4.08	−5.27
Switzerland	−2.83	−6.13	−28.95	−3.73	−3.45	−4.64
UK	−0.91	−2.78	−14.50	−1.80	−1.80	−3.02
EUROPE	−1.56	−5.34	−21.24	−1.95	−2.37	−3.59
Australia	−0.58	−6.49	−25.76	−4.19	−2.66	−3.86
Hong Kong	−0.21	−2.68	+3.96	+0.48	+2.17	+0.89
Japan	−3.05	−5.50	−40.20	−2.48	−0.44	−1.68
Malaysia	−3.23	−3.34	−15.97	−5.70	−5.25	−6.42
New Zealand	−4.71	−4.05	−42.68	−4.62	−2.82	−4.05
Singapore	−1.20	−1.14	−23.35	−0.39	−0.18	−1.42
Canada	−0.80	−1.60	−15.87	−2.16	−0.24	−1.48
USA	−1.97	−3.64	−9.81	−4.60	−3.40	−4.60
Mexico	−3.63	−7.22	+82.12	−4.42	−3.24	−4.44
South Africa	−0.67	+0.39	−18.78	−1.03	+0.91	−0.34
WORLD INDEX	−2.16	−4.66	−25.08	−3.06	−1.99	−3.20

† Based on January 11th 1991. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Ltd

AMERICA

Iraqi withdrawal hopes spur rally

Wall Street

AN EQUITIES market deeply worried at the possibility of war in the Gulf and down 41 Dow industrial points an hour before yesterday's close, subsequently staged a 24-point rally on reports that Iraq is willing to consider a withdrawal from Kuwait if the US and its allies do not insist on a deadline, *writes Patrick Harverson in New York*.

The Dow Jones Industrial Average was finally 17.58 off at 2,483.91 after the news report had stimulated a round of buying. Other indices also recovered well late in the day. The broader-based Standard & Poor's 500 ended down 2.75 at 312.48 and the Nasdaq composite of over-the-counter stocks lost 6.06 on balance at 355.74.

New York SE volume was light at 122.5m shares, with investors unwilling to move stock around ahead of the Tuesday night United Nations deadline for Iraq to quit Kuwait.

Rising crude oil prices and a big drop in stock index futures had earlier exacerbated the downward pressure on equities. In late trading, a barrel of crude oil for delivery in February was up $3.49 to $30.78.

The corporate reporting season kicked off with some poor earnings figures from US commercial banks. The one exception was J.P. Morgan, which reported a 24 per cent rise in fourth quarter net income to $191m. The good news helped Morgan shares fight the wider market trend to end the day unchanged at $45.

Chase Manhattan, down $⅛ at $10⅞, reported fourth quarter debt provisions and earnings of $193m, leaving the group with a loss of $334m for 1990. First Chicago announced a final quarter profit of $57.1m (down from $122.9m at the same stage in 1989), sending its shares initially lower before closing steady at $16⅝. PNC Financial declined $⅞ to $19⅝ after the Pennsylvania-based banking group said it expected a $175m loss for the last three months of 1990.

The country's largest bank, Citicorp, is due to report figures today. Analysts are predicting disappointing profits for the final quarter, and yesterday the bank's shares lost $⅜ to $11⅞ in anticipation.

Most oil issues drew strength from the rise in crude prices. Occidental, which yesterday announced an ambitious restructuring programme and planned asset sales of $3bn, rose $⅝ to $17⅝.

Mobil added $⅞ at $56⅞, Texaco $⅞ at $58½ and BP $⅛ at $73⅝.

The one other sector to post gains was gold, benefiting from the rise in the bullion price. Battle Mountain Gold firmed $⅛ to $7⅞, Homestake Mining also $⅛ to $18⅞ and Newmont Gold $⅞ to $41¼.

Canada

TORONTO stocks finished well above the day's worst, helped by the late report that Iraq might be willing to pull out of Kuwait. A sharp rally in US bonds from earlier lows also gave late support.

The composite index lost a net 16.0 at 3,167.6 after having been down 29 points earlier. Declines led advances by 352 to 174 after a moderate volume of 21.5m shares, against last Friday's 16.1m.

Although the world prices of gold and oil surged yesterday, their respective stock groups enjoyed less success. Gold stocks were finally up just 0.1 per cent on index, while the oil sector fell 0.35 per cent.

EUROPE

Bourses fall as UN deadline nears

THE APPROACH of the United Nations deadline for Iraqi withdrawal and the Soviet assault in Lithuania drove several bourses to 1990/91 lows yesterday. Paris and Milan reached depths last seen in 1988, *writes Our Markets Staff*.

In London, the FT-SE Eurotrack 100 index fell to 899.10 before finishing 23.69, or 2.8 per cent lower at 904.17.

Shares lost out badly to the dollar, gold and oil, especially oil futures, February Brent futures rising $5 to $30.55 on the thought that a prolonged Gulf war could take oil to $40-$50 a barrel.

FRANKFURT's FAZ index, down 12.95 at 581.27 in midsession, stayed above its low of September 28, 1990, but the DAX, 54.46 or 3.9 per cent lower at 1,327.80, broke below its own nadir of the same date.

Turnover dropped from *DM5.1bn to DM4bn. The Soviet* uncertainty gave banks a bad day, Dresdner leading the way down with a drop of DM16.70 to DM322.50 and Deutsche Bank falling DM26.50 to DM560.

Carmakers were also weak, Volkswagen dropping DM18.40 to DM306.50 and Porsche DM25 to DM650, although there was talk in the trade press of a higher dividend from the luxury car maker.

MILAN slumped 3.1 per cent on options expiry day. The Comit index fell 15.82 to 494.56, the lowest level since June 17, 1988, in volume estimated at L100bn. Consob, the market's regulator, said that it was considering various intervention measures, including a halt to trading, if war in the Gulf led to excessive volatility.

Industrial blue chips were hard hit, with Fiat losing L187 or 3.5 per cent to L5,192 and Generali down L890 or 3 per cent at L28,500. Enimont was supported by the ongoing offer to swap shares in the chemical group for ENI bonds with a face value of L1,650. The stock slipped a marginal L2 to L1,586.

PARIS fell 3.6 per cent to a two-year low, as the CAC 40 index dropped 53.77 to 1,441.17, its worst level since December 1988. Turnover was moderate, estimated at more than Friday's FFr1.6bn.

Blue chips were sold because of their liquidity, with Alcatel Alsthom losing FFr22.10 to FFr485.90, Société Générale falling FFr28 to FFr215 and Paribas off FFr21.50 at FFr395.50. Companies with a poor fundamental outlook fell even further, as Havas dropped FFr30 or 7.4 per cent to FFr373.

Elf Gabon, the oil producer, was one of the few highlights, rising FFr52 to FFr1,540.

AMSTERDAM fell to its lowest level since Iraq invaded Kuwait on August 2. The CBS Tendency index fell to 75.3 before closing 2.2 lower at 75.8, down 2.8 per cent. Nedlloyd, the shipping and transport group, opened at Fl 35 after a Dutch newspaper said that the company's 1990 loss would run to tens of millions of guilders, but it recovered to close 40 cents lower at Fl 38.30.

ZURICH dropped in active trading, the Crédit Suisse index losing 11.8 or 2.7 per cent to 426.5. Union Bank dropped SFr60 to SFr2,490; its chairman was reported as saying that a 1990 dividend cut was unlikely in spite of expectations of a 10-20 per cent profits fall.

MADRID also declined, with the general index losing 4.7 or 2.2 per cent to 213.70.

STOCKHOLM was led lower by Astra after it said that US regulators had proposed only a limited expansion of the use of its ulcer drug, Losec. The free B shares fell SKr25 or 5.7 per cent to SKr410. The Affärsvärlden General index dropped 19.9 or 2.4 per cent to 813.2.

OSLO fell to its lowest level since 1989. The all-share index lost 5.17 to 413.12 in turnover of NKr689m, of which NKr500m comprised Nora's purchase of 10 per cent of Orkla.

ISTANBUL gained 3.8 per cent, the index adding 32.99 to 3,367.52 in thin trading. One dealer said that the rise might have been due to the different approaches of brokerage houses, and banks.

ASIA PACIFIC

Nikkei down moderately in light volume

Tokyo

INVESTORS retreated to the sidelines yesterday on concern over developments in the Gulf and Lithuania, and the Nikkei average closed moderately lower after first market volume down to only 180m shares from Friday's 350m, *writes Emiko Terazono in Tokyo*.

The Nikkei of 225 constituent stocks registered a net decline of 27.79 at 23,213.23 after opening at 23,197.96 and falling to the day's low of 22,911.15 on small-lot selling by jittery investors.

Losses outnumbered gains by 517 to 383, and 193 issues remained unchanged. The Topix index of all first section stocks, however, gained 1.68 to 1,695.36, but in London trading the ISE/Nikkei 50 index receded 21.05 to 1,299.27.

Most investors in Tokyo remained inactive before today's national holiday and the United Nations deadline for Iraq to withdraw from Kuwait. Traders said that investment trusts started bargain hunting in the afternoon, however, which boosted high-technology issues in particular. Pioneer Electronic rose Y40 to Y4,220.

Precision makers with high export ratios rose on a weaker yen. Nikon added Y20 at Y1,090 and Canon Y20 at Y1,250.

Concern over the situation in Lithuania, and reports that the European Community may reconsider its aid programme to the Soviet Union, hurt stocks that had been popular recently ahead of President Mikhail Gorbachev's planned visit in April. Trading houses had C.Itoh down Y29 to Y691.

The paper and pulp sector was the largest loser of the day, falling 1.9 per cent. Honshu Paper, *a favourite of speculators last year*, was the day's most active stock, falling another Y70 to Y1,160. Daishowa Paper, which bought the Rodin sculpture "the thinker", weakened Y320 to Y2,390 on concern over margin positions. The company's profits for the year to March 31 are expected to show a fall.

Arabian Oil lost Y150 to Y7,100, falling for the first time in four days. While production has been maintained at normal levels until this month, it will be reduced by one third owing to the lack of ships coming into the Gulf area.

Matsuzakaya shed Y100 to Y3,840. The company announced that it will privately place Y5bn in bonds to raise funds for building new stores. It faced difficulty in raising funds through equity financing since its stock price had surged on buying by Shuwa, a real estate and stock investor.

In Osaka, the OSE average gained 103.39 to 24,306.29 on volume of 23.3m shares. Nintendo recovered from profit-taking, rising Y100 to Y18,000.

Roundup

THE TREND in the Pacific Rim was downwards, although *bargain hunting lifted markets off* their early lows, and some finished higher.

AUSTRALIA fell to a three-year low, the All Ordinaries index losing 12.5 to 1,231.3, while turnover shrank to A$82m from A$129m.

The transport sector declined sharply on fears of higher oil prices. TNT fell 9 cents, or 8.6 per cent, to a six-year low of A$1.14 with 1.22m shares traded. News Corp dropped 68 cents to A$4.30 after weekend reports that the company would not be able to meet loan payments to June without a bank refinancing deal.

NEW ZEALAND dropped to a seven-year low in thin trading. The Barclays index fell 13.04 to 1,158.08 in turnover of NZ$4m, down from NZ$9m. Higher domestic interest rates added to the pessimistic mood.

HONG KONG fell but finished above its lows, the Hang Seng index ending 30.75 down at 3,037.62, after losing 43 points in the first 45 minutes. Turnover remained light at HK$495m, after HK$436m.

SINGAPORE's index rose slightly, although losing stocks outnumbered winners. The Straits Times Industrial index added 2.18 at 1,177.52 in turnover of S$68m, after S$90m.

KUALA LUMPUR's composite index eased only 0.67 to 481.44 in spite of Gulf worries and confirmation that the finance minister wants to resign.

MANILA advanced 3.1 per cent on hopes of a diplomatic solution to the Gulf crisis. The composite index rose 18.37 to 605.21. TAIWAN put on 1.5 per cent on institutional bargain hunting. The weighted index added 51.60 at 3,591.31.

SOUTH AFRICA

GOLD SHARES jumped as bullion prices rose towards $400 yesterday on prospects of war in the Gulf and the fighting in Lithuania. The Johannesburg all-gold index added 61 to 1,367, but the industrial index slid 33 to 2,878.

FT LAW REPORTS

Co-insurer is not liable on double insurance claim

LEGAL & GENERAL ASSURANCE SOCIETY v DRAKE INSURANCE CO LTD

Court of Appeal (Lord Justice Lloyd, Lord Justice Nourse and Lord Justice Ralph Gibson): December 20 1990

AN INSURER'S right of contribution against a co-insurer in respect of a paid-up claim is not excluded by the insured's failure to notify the co-insurer of a potential claim, though such failure is a breach of condition under the policy, because the breach occurs after crystallisation of the right to contribution on the date of the relevant loss. But where the insurer's policy provides that in a double-insurance situation he shall only be liable for his rateable proportion of the loss, his right to contribution is excluded not only in respect of that net liability, but also in respect of any payment made voluntarily in excess of the rateable proportion.

The Court of Appeal so held when allowing an appeal by the defendant co-insurer, *Drake Insurance Co Ltd, from* the judgment of Mr Roger Buckley QC sitting as a deputy Queen's Bench judge on July 7 1989, that the plaintiff insurer, Legal & General Assurance Society Ltd, was entitled to contribution from Drake in respect of a settled claim.

LORD JUSTICE LLOYD said that on June 14 1976 a Mr Arora was driving his car when he collided with a pedestrian, causing him serious injury.

Mr Arora was covered by two policies. The first was issued by Legal & General, and the second by Drake.

On December 5 1977 Legal & General informed Drake of the existence of the pedestrian's claim. On December 23 Legal & General reasonably settled the claim for £65,000. On March 31 1983 the court approved the compromise. On June 1 1984 Legal & General commenced contribution proceedings against Drake.

On assumed facts, if there were two insurances in the same interest on the same subject matter, each covering the same risks, and the assured recovered 100 per cent from insurer A, insurer A could recover half from insurer B.

The right of contribution was based not in contract, but on the equity that burdens should be shared equally.

If each policy provided that claims must be notified within 14 days and the assured gave notice within that time to A, failure to notify B would not deprive A of his right of contribution. It would be inequitable for B to receive the benefit of the premium without being liable for his share of the loss.

The obvious date at which to determine whether the conditions for existence of the equity of contribution were satisfied, was when the assured was entitled to exercise his choice between claiming against A or B, namely the date of loss.

When giving notice was a condition precedent to liability it was enough that B was potentially liable. If the contract was void *ab initio*, or if the assured was in breach of condition or had repudiated the contract *prior* to the loss, it was as if B had never been on risk.

The distinction between breach of condition prior to loss and subsequent breach, *was crucial. The right to contribution* crystallised at date of loss.

On the assumed facts, A could recover 50 per cent contribution from B, though the assured's failure to give notice to B was characterised by the policy as breach of condition precedent.

In *Weddell [1931] 1 KB 563* the policy provided that if there was "any other existing insurance covering the same loss" when a claim arose, the insurer was not liable for more than its rateable proportion of the loss. As to whether there was "any other existing insurance", Mr Justice Rowlatt said the position was "to be regarded as at before the time for giving notice expired".

His observations supported the view that one looked at the position, not when A sought to enforce its right of contribution, but when the loss occurred.

In *Monksfield [1971] 1 Lloyd's Rep 139* in the Mayor's and City of London Court, the *judge rejected a claim for con*tribution. He said it could not be equitable that an insurer "which had no notice of an accident, had no say in the handling of the claim, and for whom . . . there was no opportunity 'to investigate the rights or wrongs of it', should be called on to make a contribution in a case where it would quite clearly have had the right to repudiate if the claim had been brought under the terms of its own policy".

That reasoning was not convincing. The fact that a co-obligor had no "say in the handling of the claim" had never been an answer to a claim for contribution. As to the right to repudiate, that would have been a good defence if the assured had been in breach of condition *prior* to the loss.

Failure to distinguish between breaches of condition prior to the loss and subsequent breach by failing to give notice in time, vitiated the judge's conclusion.

Monksfield was wrongly decided and should be overruled.

In the present case the policies contained a condition that immediate written notice should be given of an event which might give rise to a claim, and that due observance should be a condition precedent to liability.

Both policies provided that if *there was "any other insurance* covering the same loss" when the claim arose, the insurer would not pay or contribute more than its rateable proportion.

But for the rateable proportion clause Legal & General *was entitled to contribution for* the reasons given when dealing with the assumed facts. The judge reached the right conclusion on the case as presented before him.

On the appeal Mr Woods for Drake sought to rely on the rateable proportion clause in the Legal & General policy, raising the point for the first time.

Since there was "another insurance covering the same loss" when the claim arose, Legal & General was not liable for more than 50 *per cent of* the loss. The point was precisely covered by Mr Justice Rowlatt's observations in *Weddell*.

Was it possible for Legal & General now to recover the 50 per cent which it need not have paid?

Mr Woods argued that the excess over 50 per cent was a voluntary payment. He said that since the right of contribution only arose in equity where an insurer had been *obliged* under his policy to pay more than his rateable proportion, Legal and General could not recover the excess – the rateable proportion clause excluded the right of contribution.

Under section 149 of the Road Traffic Act 1972 a third party who had obtained judgment against an insured in respect of a liability required to be insured under the Act, could enforce the judgment against the insurer, notwithstanding a rateable proportion clause. Assuming that settlement followed by court approval was a "judgment", it could be argued that Legal & General was compelled to pay the whole claim, in which case the excess over 50 per cent was not a voluntary payment.

The difficulty with that argument was that Legal & General, though obliged to pay the whole claim, was entitled to recover the excess over 50 per cent from Mr Arora (see section 149(iv)). It followed that, so far as Drake was concerned, the excess over 50 per cent was a voluntary payment.

There was no answer to that difficulty. Nor could Legal & General recover from Drake half the 50 per cent which was its liability to Mr Arora, whether by way of contribution or on any other basis.

Drake was entitled to succeed on its new point.

The appeal was allowed.

LORD JUSTICE RALPH GIBSON agreed that the appeal should be allowed, but on the ground argued for Drake at trial as well as on the new point.

He said that in *Weddell* Mr Justice Rowlatt made no *express reference to the princi*ple of contribution.

For Drake to be held liable to Legal & General in accordance with the decision of the judge below, gave Legal & General relief to which it was not entitled under its contract with Mr Arora.

LORD JUSTICE NOURSE agreed that the appeal should be allowed for the reasons given by Lord Justice Lloyd.

For Drake: Jonathan Woods (Stevensons).
For Legal & General: Jonathan Playford QC, Lawrence West and Leon Viljoen (Lawrence Graham).

Rachel Davies
Barrister

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	MONDAY JANUARY 14 1991 — US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	FRIDAY JANUARY 11 1991 — US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX — 1990/91 High	1990/91 Low	Year ago (approx)
Australia (75)	114.05	−0.3	88.76	97.32	91.58	97.51	−0.9	7.84	114.41	88.95	97.06	91.16	98.36	158.31	113.10	155.25
Austria (19)	171.22	−3.7	133.25	146.12	137.49	137.27	−3.3	1.99	177.72	138.16	150.76	141.60	141.92	285.63	171.22	211.95
Belgium (60)	123.52	−2.0	96.13	105.40	99.18	96.71	−1.3	6.03	126.00	97.96	106.88	100.39	98.03	160.02	123.52	157.53
Canada (116)	127.40	−0.2	99.15	108.71	102.29	106.00	−0.5	3.79	127.62	99.21	108.25	101.67	106.50	153.61	121.24	148.96
Denmark (32)	220.58	−1.2	171.67	188.24	177.12	178.13	−0.6	1.68	223.27	173.58	189.40	177.88	179.23	277.62	217.74	247.66
Finland (22)	91.47	−1.1	71.19	78.06	73.45	71.35	−0.3	4.25	92.53	71.94	78.50	73.73	71.54	152.29	91.47	140.85
France (113)	121.85	−3.4	94.83	103.98	97.84	100.11	−2.7	4.11	126.18	98.09	107.03	100.52	102.92	168.85	121.85	153.90
Germany (88)	104.34	−2.8	81.21	89.05	83.78	83.78	−2.0	2.72	107.31	83.43	91.05	85.50	85.50	144.63	101.38	127.96
Hong Kong (48)	122.01	−1.0	94.95	104.11	97.97	122.20	−1.0	5.48	123.24	95.81	104.54	98.19	123.39	147.49	112.24	114.44
Ireland (16)	134.84	−2.4	104.94	115.07	108.27	110.21	−1.2	4.69	138.17	107.42	117.21	110.08	111.57	198.57	134.84	193.24
Italy (91)	72.05	−4.0	56.07	61.48	57.85	62.42	−3.4	4.04	75.01	58.32	63.63	59.76	64.62	109.26	72.05	100.70
Japan (453)	123.51	−0.5	96.12	105.40	99.19	105.40	+0.1	0.81	124.07	96.46	105.25	98.86	105.25	197.26	106.58	187.59
Malaysia (34)	199.02	+0.2	154.89	169.83	159.80	208.72	+0.2	3.22	198.66	154.44	168.51	158.27	208.37	250.89	182.96	229.13
Mexico (12)	548.81	−1.1	427.12	468.33	440.69	1774.03	−1.1	0.39	554.86	431.37	470.69	442.08	1792.97	613.96	324.53	326.43
Netherland (41)	128.28	−2.0	98.28	107.76	101.40	100.32	−1.3	5.38	128.92	100.22	109.36	102.72	101.67	149.03	126.28	138.53
New Zealand (15)	41.56	−2.0	32.35	35.47	33.37	37.15	−1.7	9.12	42.40	32.97	35.97	33.79	37.80	75.36	41.56	73.74
Norway (30)	183.80	−0.7	143.04	156.85	147.59	150.37	−0.2	2.02	185.09	143.90	157.02	147.47	150.61	276.79	183.80	214.83
Singapore (25)	156.29	−0.6	121.64	133.37	125.50	127.01	−0.3	3.30	157.27	122.27	133.41	125.30	127.33	209.24	147.24	185.27
South Africa (60)	184.89	+0.5	143.89	157.77	148.46	134.04	−0.2	4.06	183.95	143.01	156.04	146.56	134.25	251.39	151.50	227.80
Spain (41)	131.83	−2.7	102.59	112.50	105.85	96.92	−2.0	5.80	135.46	105.31	114.92	107.93	98.93	182.25	128.54	158.70
Sweden (27)	148.06	−3.1	115.23	126.35	118.89	125.65	−2.6	3.25	152.74	118.75	129.57	121.70	128.94	234.93	146.60	202.05
Switzerland (65)	82.79	−2.4	64.43	70.66	66.49	65.83	−2.2	3.18	84.85	65.96	71.98	67.61	67.30	109.77	82.79	96.92
United Kingdom (297)	158.40	−1.3	123.27	135.16	127.18	123.27	−1.2	5.67	160.52	124.79	136.15	127.88	124.79	176.18	139.87	160.50
USA (526)	*126.32*	*−0.9*	*98.31*	*107.80*	*101.43*	*126.32*	*−0.9*	*3.95*	*127.48*	*99.11*	*108.14*	*101.57*	*127.46*	*146.95*	*119.06*	*136.41*
Europe (942)	126.62	−2.2	98.55	108.06	101.68	100.29	−1.8	4.65	129.44	100.63	109.80	103.13	102.10	157.65	124.91	144.02
Nordic (111)	156.17	−1.9	121.54	133.27	125.40	124.16	−1.3	2.45	159.17	123.74	135.02	126.82	125.83	223.29	155.55	195.38
Pacific Basin (650)	122.76	−0.5	95.54	104.76	98.58	105.33	+0.1	1.22	123.33	95.88	104.63	98.27	105.26	192.75	107.82	183.67
Euro – Pacific (1592)	124.65	−1.2	97.01	106.36	100.09	103.94	−0.7	2.65	126.15	98.07	107.00	100.50	104.68	174.18	116.03	168.01
North America (642)	126.29	−0.9	98.28	107.78	101.42	124.99	−0.9	3.94	127.39	99.04	108.08	101.52	126.10	148.43	119.26	137.06
Europe Ex. UK (645)	107.42	−2.8	83.60	91.69	86.28	86.89	−2.2	3.85	110.55	85.95	93.80	88.10	88.83	145.62	107.42	132.62
Pacific Ex. Japan (197)	113.26	−0.6	88.14	96.66	90.95	100.99	−0.8	6.48	113.98	88.61	96.70	90.82	101.84	146.72	112.96	136.60
World Ex. US (1780)	125.57	−1.1	97.73	107.17	100.84	104.74	−0.7	2.70	127.01	98.74	107.75	101.19	105.47	173.77	117.12	168.02
World Ex. UK (2009)	*121.56*	*−1.0*	*94.61*	*103.74*	*97.62*	*110.26*	*−0.7*	*2.81*	*122.82*	*95.48*	*104.19*	*97.86*	*111.05*	*162.00*	*115.37*	*155.25*
World Ex. So. Af. (2246)	124.47	−1.1	96.87	106.23	99.96	111.38	−0.8	3.12	125.81	97.81	106.74	100.25	112.25	161.84	118.04	155.26
World Ex. Japan (1853)	128.76	−1.4	98.65	108.18	101.80	114.72	−1.2	4.31	128.50	99.90	109.02	102.40	116.14	151.59	124.31	140.81
The World Index (2306)	124.84	−1.1	97.15	106.53	100.25	111.55	−0.8	3.13	126.16	98.08	107.03	100.53	112.41	162.05	118.33	155.70

Continued on Page 31

FINANCIAL TIMES SURVEY

WORLD INDUSTRIAL REVIEW

SECTION III

Tuesday January 15 1991

The cycle is still turning

INDUSTRY began last year on the crest of the wave of revolutions which had swept communism from power in eastern Europe. The events of 1989 had capped the long economic expansion of the previous decade.

But in 12 months the confidence bred by the historic triumph of markets over planning has almost evaporated. Industry enters 1991 beset by uncertainty. The business cycle has not been abolished, after all.

The gloom gathering above industry has come from several sources: the instability of financial sectors in the US and Japan, the rise in oil prices and the threat of war in the Gulf, the disarray in the Soviet Union and the collapse of the Gatt talks on world trade.

It is taking its toll on national economies and across industrial sectors internationally. Recession already grips Australia, the UK and the US. Growth is set to slow in other economies such as France and Italy, while Germany and Japan are still forging ahead, at least for the moment.

Sectors such as automobiles, construction, steel and chemicals have all passed the high points in their cycles. Aviation and aerospace have been hit by the rise in oil prices and doubts over future levels of defence spending. In others the outlook is becoming clouded.

Slower growth will bring with it important challenges to companies and their managers. *Some of the habits developed during the years of plenty will have to be renounced.* Executives at groups which have expanded internationally in the last decade will face a particular test of their management skills.

Companies which cut back on investment in product development will risk losing positions which they will find hard to regain once stronger growth resumes. It may be more difficult than it was a decade ago to identify the potential for rapid productivity gains.

In short, the looming downturn will be a test of how far the much vaunted strategies pursued in the 1980s have turned companies around and how much still needs to be done.

Charles Leadbeater

IN THIS SURVEY

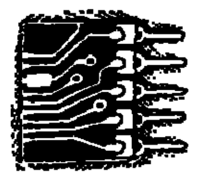
■ Cars

Car demand is expected to fall this year, for the first time since 1987. In trucks, the European market has weakened considerably, but Germany is still doing well. And the Japanese are squeezing the west's components industry.

■ Chemicals

Though there are prosperous niches in the industry, the bulk producers are in the doldrums. Even pharmaceutical companies, which have seemed immune to the ups and downs of the world economy, may find their 40-year run of success coming to an end.

■ Electronics

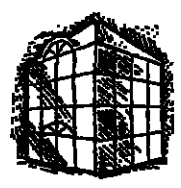


High definition television could be the most important technology of the 1990s: can Europe catch up with Japan? As for semi-conductors, the US industry wants more protection. Worldwide, the computer industry has been hit by a fall in demand for information technology products.

■ Aerospace

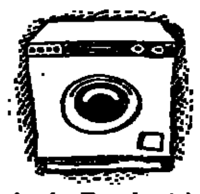
The ending of the Cold War has *led to a decline in military* spending and shifted the focus to civil aviation. Meanwhile, the airline industry is flying through a new period of heavy turbulence as high oil prices and the economic slowdown put pressure on balance sheets.

■ Construction



The Middle East crisis could boost plans for investment in new infrastructure in the region — though the impact may take time. That is one crumb of comfort as the volume of international orders falters and the market, especially in the UK and the US, turns down sharply.

■ Consumer Goods



White goods manufacturers face a bleak outlook in the US, and it's not much better elsewhere. Not only are there fears of war and recession, but many appliances are lasting longer and replacement demand is slack. Product innovation seems the best way ahead.

■ Oil

The violent price swings of last year seem set to continue into 1991. Demand is expected to fall worldwide and shortages look unlikely, though there might be a short supply disruption if war occurs in the Gulf. In the North Sea activity is at a peak, while potential finds in the Soviet Union remain to be explored.

■ Textiles

The world's trade ministers are still procrastinating over the fate of the Multi-Fibre Arrangement, which is due to expire at the end of 1991. But the new generation of low cost producers in south-east Asia is continuing to gain momentum, regardless of what happens to the MFA.

■ Steel

Having recovered from the overcapacity crisis of the 1970s and early 1980s, the industry is preparing for a downturn which will put its finances under renewed pressure. Producers in Europe, the US and Japan will bear the brunt of this, while those in the developing world will continue to expand.

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Charles Leadbeater looks at the international dimensions of the downturn

From revelling to reckoning

THE PARTY seems to be coming to an end. After several years of riotously enjoyable growth, the world's economy seems poised to call it a day.

Some revellers such as Australia and the UK have already left. The British were among the most committed, enthusiastic and extrovert of the assembled guests. In the last few months the British *economy has fallen* sharply into a recession which most expect could be extended and deep.

The US economy has just gone through the front door and is heading down the steps. Officials refuse to call it a recession, but that is what it *feels like in Detroit.*

France is putting on its coat *in preparation to depart,* while the Italian economy is reclining on a couch – still there but feeling very tired.

Signs that the party is *breaking up have left* the Germans edgy. Excited by the home market created by reunification, they are warily watching signs of tiredness *and loss of stamina grow in* their export markets.

The late arrivals from eastern Europe, who were greeted with cheers, are *finding it hard to get into the* swing of things. After an initial burst of energy, they are beginning to wilt.

That leaves the hard core of *serious revellers* in the kitchen. The Japanese are beginning to slow down. But compared with the near-collapse which has overtaken the British economy, they are *highly animated.* They show no sign of throwing in the towel.

From every vantage point, the world economy seems to be running out of steam. The advanced economies start 1991 *amid a welter of uncertainties* about the prospects for the world economy.

In the west many companies *in electronics,* aerospace and engineering industries are beginning to calculate the effects of lower defence spending.

The finance sector has been a significant source of this *uncertainty,* particularly the savings and loans crisis in the US, and retrenchment in the US and Japanese banking sector.

The Gulf crisis and the rise in oil prices have created a military and economic challenge to the order of the post-Cold War world.

The breakdown of the Gatt talks, amid bitter recriminations between Europe and the US over agricultural subsidies and the liberalisation of services, threatens the possibility of renewed wars of import quotas and subsidies.

In many sectors industrialists are having to relinquish the habits of the last few years when they were going for growth. A range of sectors – vehicles, steel, chemicals and even aerospace and aviation – are heading down. As a senior executive with a leading German industrial combine puts it: "We are having to learn that the business cycle was not abolished."

The recognition that harder times are on the way is just the start. The recession a decade ago prompted far-reaching *changes in manufacturing* industries in the west, archetypically in the lessons the US car manufacturers learnt from Japan and the way that diversified combines such as General Electric were forced *to slim to a more manageable* menu of businesses.

Will governments and producers, especially in Europe, disavow the protectionist measures they have turned to in previous recessions?

Companies' responses to the gathering world downturn will be differ according to the state of the cycle in their sectors and the buoyancy of their home *markets.* However, several common threads will run through how companies will perform in the next year.

The downturn is likely to *promote* further international restructuring and consolidation as companies reassess the priorities for investment. Business activities which were kept alive by the strong growth of the past few years will start to feel the pinch.

Slower growth will hasten moves towards consolidation *which were already under way* in industries such as computers where technological developments, such as the move towards open systems, *are putting pressure on* traditional mainframe computer makers.

The downturn will be a test of the restructuring in traditional sectors such as steel which have been coaxed back to a semblance of *financial health by the growth* of the past few years. Will governments and producers, especially in Europe, disavow the traditional interventionist and protectionist measures they have turned to during *previous recessions?* How will the US industry, armed with its joint ventures with Japanese steel producers, fare?

The growth of cross-border investments in the last decade means that restructuring in this downturn will have more of an international dimension than 10 years ago. How will companies such as the French state-owned groups Thomson in electronics and Usinor-Sacillor in steel manage the businesses they so hungrily acquired in the past few years? Will giants such as Asea Brown Boveri, the Swedish-Swiss engineering company be able to reorganise the hundreds of factories it has accumulated during the years *of growth?* The recession will present a new challenge to the international management skills of these companies.

Companies will have to search for productivity gains from different sources. Ten years ago the western car industry reacted to the recession and the threat of Japanese competition by shedding labour, closing peripheral plants and sub-contracting. Manufacturers were transfixed by the potential of new technology to make production more efficient.

This time around, things will have to be different. White-collar managerial and administrative staff may face redundancies alongside blue-collar *manual workers.*

Manufacturers will have to search for more subtle productivity improvements. There will be a particular stress on making production swifter – reducing the time it takes to *launch products and cutting* the lag between components arriving at a plant and leaving in the form of finished goods.

But perhaps the greatest challenge will be which companies will be able to continue with *investment* in product development. Product cycles are shortening in most manufacturing industries. The key to competition is not just price *and quality but design and* customisation, giving products special characteristics.

Those companies which fail to modernise their product lines may find themselves *falling further and further* behind once the recession is over.

Slower growth, reduced trade flows and the threat of protectionism may hinder the internationalisation of business. But in the long run the downturn will only confirm that large companies have to spread their sales, and *probably much of their* manufacturing, between north America, south-east Asia and Europe.

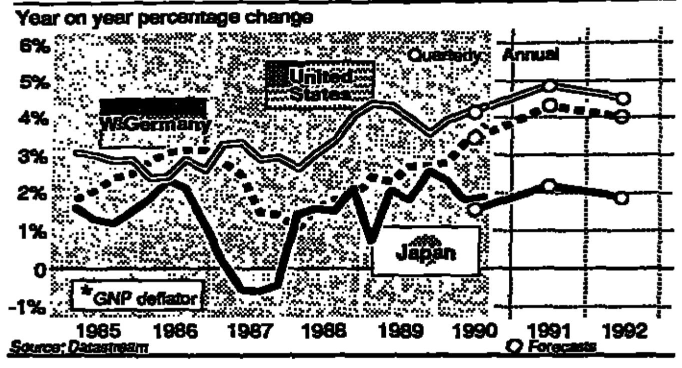
Most US and European chemical companies, for instance, see expansion in the fast-growing economies of south-east Asia as more of a priority because of slower growth in their domestic markets. Japanese manufacturers in *electronics,* cars and, increasingly, computers recognise the need to be able to tailor products to local market needs, partly by producing them overseas. They are determinedly heading up-*market into more sophisticated,* higher value added products, presenting a growing challenge to European and US manufacturers in luxury markets.

Perhaps the greatest *question-mark hangs over the* German economy, which is still an export economy. The strength of the mark alone and the rising costs of producing in Germany will force companies such as Daimler-Benz to consider expanding their limited overseas manufacturing activities.

However the form of international expansion may change. There may be a shift towards alliances rather than more expensive acquisitions or greenfield investments. Professor Jordan Lewis, a leading US business strategy consultant, says: "In an economic downturn firms that cut back lose their positions. Lost positions are very difficult to regain. Forming an alliance with another company is the only way a company can cut its costs, reduce investment and yet maintain its *competitiveness by drawing on* the resources of a partner."

Inflation*

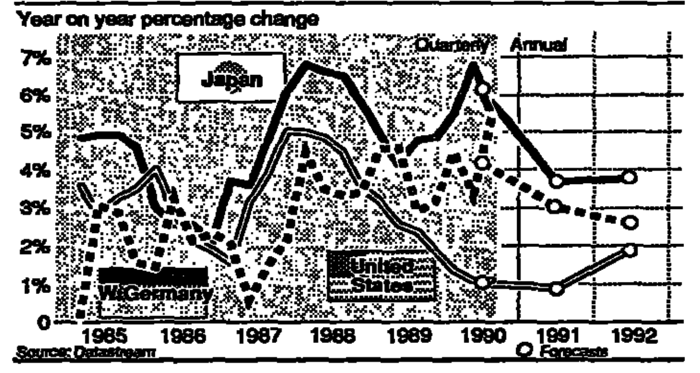
Year on year percentage change



Source: Datastream O Forecasts

Real growth

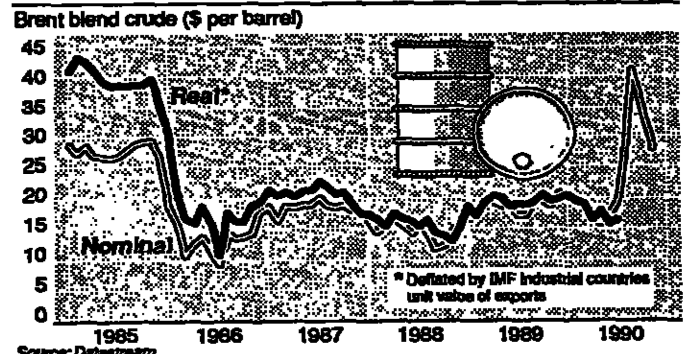
Year on year percentage change



Source: Datastream O Forecasts

Oil price

Brent blend crude ($ per barrel)



Source: Datastream

Martin Wolf sees a nervous year ahead for the global economy

Law of the conservation of worries

WITH A modest oil shock having already happened and a Middle East war in immediate prospect, the long economic expansion of the 1980s is coming to a halt. But even before President Saddam Hussein's ruthless raid on the bank of Kuwait last August, important parts of the world economy were *slowing, notably the US* and the UK.

Events since the invasion have both emphasised the slowdown in these economies, now being joined by much of continental Europe, and contributed to it. Barring stupidity or very bad luck, however, there should be nothing like the recession following the two previous oil shocks, let alone *another Great Depression. The* world economy is in too robust a state for that.

The latest Economic Outlook forecast the growth of OECD *gross national product* next year at 2 per cent, followed by 2¼ per cent in 1992. This forecast is decidedly gloomier than six months previously but, according to *Mr David Henderson,* the OECD's head of economics and statistics, it is already too favourable.

"During the past month, since our projections were finalised," he said in presenting *the report on December 20.* "most of the new information concerning the US economy has been on the gloomy side: and if we were now reworking *our projections,* we would show US growth as significantly weaker for both the latter half of 1990 and the first half of next year."

Nonetheless, the projected slowdown for the OECD as a whole is both short and shallow. Inflation is also expected to continue at between 4 and 5 per cent, neither low enough to ignore nor high enough to require vigorous action. So long as inflation remains at *this level – which depends in* large part on what happens in the Gulf – the scale of recession that followed the last two oil shocks should not happen, since those recessions were as much a consequence of disinflationary policies as of autonomous economic forces.

The Anglo-Saxons are paying for the party of the 1980s

The most comforting feature of the world economy is the *divergence across the major* economies. These now fall into three distinct groups: the Anglo-Saxons, who are paying for the party of the 1980s; the *Germans and Japanese, who* are still forging rapidly ahead; and the remaining countries of continental Europe, who are now slowing down.

In the OECD projections, economic growth next year in the US, the UK and Canada will be 0.9, 0.7 and 0.9 per cent respectively; in Japan and west Germany it will be 3.7 and 3 per cent respectively; and in France and Italy it will be in the middle, at 2.3 and 2.4 per cent.

One consequence of the divergence is that aggregate OECD growth will be maintained, despite the sharp slowdown in "Anglo-Saxonia". Another is that inflation will be curbed by the recessions in more inflation-prone countries.

A third is that the current *account "imbalances" which* have so concerned policy-makers will dwindle rapidly away.

According to the OECD, by 1992 the current account surpluses and deficits of Japan, Germany and the US will each *be down to only 1 per cent of* gross national product, a level at which they can hardly concern the most worry-prone of policy-makers. West Germany's *surplus,* for example, at $55bn in 1989, is projected to fall (for united Germany) to a mere $18bn by 1992, this fall reflecting a rise in the budget deficit to some 5 per cent of GNP. Japan's surplus, too, is *expected to fall sharply,* to $36bn in 1992, while the US deficit dwindles to $61bn.

Nevertheless, the law of the conservation of worries *applies. One worry goes and, in* this case, two take its place: financial fragility and oil. The recession in the US reflects a determined monetary squeeze by the Federal Reserve, which *has imposed low rates of monetary growth* during 1990. The squeeze is being relaxed, but it has already emphasised the fragility of the American financial system.

Not only is the cost of the bail-out of the savings and loans institutions now estimated at around $500bn, making this the biggest financial scandal of all time, but major American *banks are also in* profound difficulties. Citicorp, for example, has slashed its dividend and is cutting its labour force by 10 per cent and the shares of leading banks offer yields comparable to those of junk bonds.

Whether a genuine financial crisis is in the offing and, if so, of what magnitude is unclear. What is clear is that even with*out such a crisis the lending of* American financial institutions is likely to be severely constrained. This may well limit the effectiveness of the monetary easing, while fiscal policy *is already constrained by the* size of the budget deficit.

Financial fragility does not only concern the US. In real terms the Nikkei Dow index has plunged by some 40 per cent from its peak at the end of 1989. While other stock markets are well down in real terms from peaks reached before the 1987 crash, Tokyo is different, both because of the steepness of the fall and because the peak was reached more recently. In practice, however, *the effects of the* crash seem containable.

US savings and loans: the biggest financial scandal of all time

The oil price shock, too, looks far from as severe as the last two, at least so long as the price does not soar above $50 or so. The energy intensity of the OECD's GNP has fallen by a quarter since 1973 and its oil intensity by far more. Furthermore, the inflationary position is better than before the two previous shocks and OECD economies more flexible.

If the world economy is to plunge not into a modest recession but into a deep depression, it would presumably be because of the combination of protectionism – probably fol*lowing a breakdown of the* Uruguay Round – with financial collapse in the US and Japan, triggered perhaps by a disinflationary response to a war-induced oil shock.

A not dissimilar combination heralded the Great Depression of the 1930s. It seems incon*ceivable that the countries* which won the Cold War might celebrate its end in this way. They could not be so stupid, could they?

Guy de Jonquières on prospects for cross-border expansion

Why it pays to be on the spot

THOUGH HARSHER financial conditions have slowed the pace of international mergers and acquisitions in recent months, the basic economic and industrial factors which *have prompted companies to* expand across borders will persist this year and throughout the 1990s.

The great takeover wave of the late 1980s, and the simultaneous rapid growth of foreign direct investment and international corporate alliances, were particularly visible symptoms of fundamental changes which are reshaping markets and competition in industries from banking to telecommunications.

Corporate responses reflect a mixture of fear and greed. Throughout the *industrialised* world, established market positions are under threat, as accelerating technological innovation, deregulation and the rapid emergence of new industrial competitors conspire to undermine long-standing market barriers.

But by the same token, producers whose traditional home markets are threatened also have *greater opportunities* – and a stronger incentive – to fight back by adopting more aggressive international expansion strategies.

In sectors such as aerospace, cars and semiconductors, where supply is concentrated and investment requirements are exceptionally high, the emphasis has been on improving scale economies by acquiring competitors or collaborating with them to share costs.

In many industries, refocusing of corporate strategies has led to the extensive reshuffling of business portfolios internationally. *In chemicals,* for instance, efforts by producers worldwide to concentrate selectively on core activities resulted in extensive trading of assets across borders in the 1980s.

Precise feedback can be acquired only through intimate knowledge of local demands

Some mergers and alliances have also been prompted largely by a desire to forestall predatory takeovers or to deny *possible bid targets to other* acquirers. Such concerns seem to have played a part in the recent consolidation of European banking, inside as well as across national borders.

However, the most common objective has been to sustain growth by gaining access to new markets. For an increasingly wide range of companies, that has meant acquiring distribution networks – and in *many cases production and* development facilities – in the countries where products are sold.

That is not in itself new: the *same pattern was followed* by many US multinational companies earlier this century. But while the approach then was designed to get round restric*tive national tariffs and quotas,* today, paradoxically, it coincides with the crumbling of many traditional market barriers.

Admittedly, some Japanese investments in the US and the European Community appear to have been influenced by anti-dumping and other forms of trade protection, though the evidence is equivocal. Within the EC, however, the biggest stimulus to business expansion across borders has been the planned *removal* in 1992 of many obstacles to trade.

In most cases, the priority is to develop a much closer and more continuous contact with customers than can be acquired simply by producing goods and services in one country and exporting them to another.

Behind the increased emphasis on local market presence lie longer-term shifts in business activity in the industrialised world. As fiercer competition turns many types of products and services into commodity items at an alarming rate, producers face two main choices.

One is to go on selling the same sorts of products and services, but to seek to differentiate them by brand image, delivery method and customer service. That cannot be achieved simply by advertising, – as Nestlé, for instance, found after costly efforts to establish its confectionery brands in Britain.

In industrial as well as consumer products, effective market penetration requires *heavy* investment in local distribution channels, marketing and quality control. The time and costs involved in creating a presence from scratch often argue in favour of acquisition.

The other alternative is to seek to re-establish a defensible position by moving upmarket into businesses offering higher value added. Here, the provision of effective local customer service and support is even more vital.

In businesses such as personal computers and custom chips, products are increasingly defined by the services offered with them. In consumer

Continued on Page 3

A last chance to avert trade wars

RESOLVING THE impasse in the Uruguay Round of multilateral trade negotiations is one of the most urgent tasks for economic policy-makers at the start of 1991.

The four-year Uruguay Round effort to rewrite the rules of the trading system and adapt them to the modern age broke down at a ministerial meeting in Brussels early last month when the US and European Community failed to agree on cuts in farm subsidies.

As a result, the whole exercise has been put at risk, raising the spectre of trade wars and the development of exclusive regional trading blocs that would destroy commercial opportunities and hamper economic growth.

Through much of the 1980s, the volume of world trade grew faster than economic output as a whole. Nations thus came to rely on trade as a motor for economic growth. Yet the large payments imbalances between the US with its deficit and Japan with its surplus strained the system, bringing an increase in protectionism which the Uruguay Round was supposed to cure.

By the end of the decade the growth in trade flows had also begun to slow. In 1989 the volume of world trade grew by 7 per cent compared with 8½ per cent in 1988. First estimates by the General Agreement on Tariffs and Trade for 1990 suggest that the growth rate slipped somewhat to around 6 per cent, partly as a result of the Gulf crisis.

A successful outcome to the Uruguay Round would help restore this flagging momentum and provide what Mr Peter Lilley, Trade and Industry Secretary, has called "a non-inflationary stimulus" to the world economy. The removal of barriers to trade, not only in goods but also in services like banking, insurance and telecommunications, would create new opportunities from which all would eventually profit.

Unfortunately, there is little time left. The Gatt has entered the new year with its Uruguay Round crisis unresolved. A meeting is to be held this week to decide whether a basis can be found for resuming the negotiations. If it fails to do so quickly, the special negotiating authority conferred by Congress on the Bush administration will run out.

What is needed, above all, is a resolution of the differences over farm reform. The European Community, whose farmers receive support worth some Ecu 90bn a year, has always been reluctant to put its Common Agricultural Policy into play in the Uruguay Round.

In the run-up to the Brussels meeting, its member states agreed, with great difficulty, on an offer to cut domestic subsidies by a total of 30 per cent. But the programme was retroactive, covering a 10-year period starting in 1986. Since support has already been cut since then, the EC was offering cuts of only about 15 per cent in the first half of the current decade.

This enraged the US and its allies in the 14-nation Cairns Group of farm exporting nations. Both were asking for much deeper cuts of 75 per cent in domestic supports and 90 per cent on export subsidies. Only towards the end of the Brussels meeting did the EC agree to discuss specific policy commitments on export subsidies and on import barriers as well as on domestic support.

But these commitments were vague and hedged about with conditions. The patience of the US and the Cairns Group had run out and the talks collapsed. Only if the EC adopts a much more generous attitude will it be possible to revive the talks.

For its part, the Community has chosen to lay the blame for the impasse on the inflexibility of the Bush administration, which it says was deliberately making unrealistic demands in order to avoid having to make concessions in the Uruguay Round that would put it once again at loggerheads with Congress over trade.

Support for cuts in farm support is strong among US large exporters, such as grain and oilseed producers, but weak in other sectors such as dairy, sugar, peanuts and cotton. Some US service industries are worried that an international agreement to liberalise trade in services will undermine their ability to push through market opening measures by unilateral action directed against trading partners with closed markets.

US trade experts have long argued that only a strong and broad-ranging agreement will generate enough support to override the opposition to trade liberalisation among influential lobby groups. Significant cuts in farm support are also needed to make the package acceptable to developing countries whose economies would face a painful short-term adjustment to new rules on trade in services and intellectual property.

The March 1 deadline from Congress for the Bush administration

Looming in the background is the March 1 deadline after which the Bush administration's negotiating authority lapses. Known as the "fast-track" authority, this allows the administration to negotiate an agreement that will be passed by Congress on a single vote. Without it, Congress can revert to a system of voting on the agreement line by line, rejecting large parts of it and making life impossible for the Gatt for the administration.

Trade officials say that, despite the blockage in farming, negotiation in other areas is going on and the Uruguay Round was surprisingly well-advanced by the end of the Brussels meeting. With agreement on farm supports, accords in other areas ranging from textiles, to patents, investment and services would fall quite quickly into place.

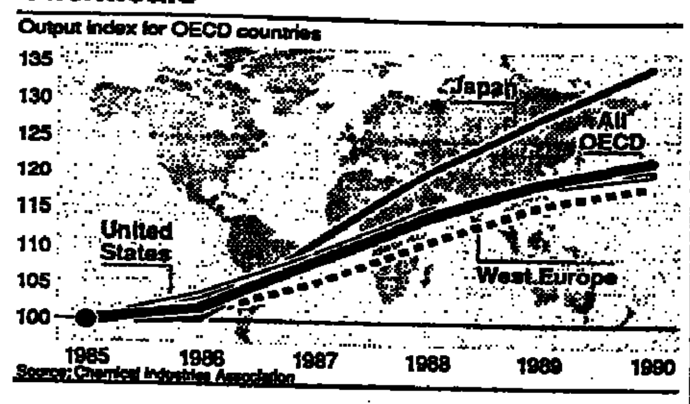
European officials, in particular, believe that there is still time to complete the entire round by March 1. *Gambling* that Congress would renew the fast-track is dangerous, they say. It might refuse to do so, and, in any case, would be almost certain to impose tough conditions such as, for example, another round of so-called Super 301 actions against countries singled out for their "unfair" trading practices.

Others are not so optimistic that the round can be completed that quickly. It would take a substantial shift in the European position on farming. So far, there is no sign of it. Moreover, a lot of technical negotiating still needs to be done in the area of tariff reform. Offers of tariff cuts put on the table so far fall well short of the 33 per cent target set by Gatt at its ministerial meeting in Montreal at the end of 1988.

The risk therefore is that, without a quick agreement, the Uruguay Round could go into limbo for a long period. In such circumstances the chances of keeping alive the progress that has already been reached in four years of negotiation would be slim. Gatt's power to police the world trading system would be diminished and governments would have increasing recourse to unilateral and protectionist trade policies.

Peter Montagnon

Chemicals



Bulk producers feel the pinch

MANY CHEMICAL company executives were aware a year ago that their industry's three-year boom of the late 1980s was due to come to an end. Few realised how suddenly the cyclical downturn would come in 1990.

The world's four largest chemical companies – BASF, Bayer and Hoechst of Germany and ICI of the UK – reported falls of a third or more in 1990 third quarter profits and some analysts are warning that 1991 may bring even worse news. The German trio and other leading European companies such as Rhône-Poulenc of France and Akzo of the Netherlands may well cut their dividends. ICI will do so only if its financial position becomes much worse, because a dividend cut would be regarded in the City of London as a mark of managerial failure, in a way that would not apply to its continental competitors.

Petrochemicals and plastics have been responsible for most of the damage. Trading conditions deteriorated steadily during the first half of 1990. Then the Gulf crisis put a more severe squeeze on the manufacturers, as their main oil-based raw material, naphtha, doubled in price and the weakening world economy reduced demand for their products.

Businesses further downstream in the chemicals production process, making specialised materials with higher added value, have suffered less.

The sector sometimes called fine chemicals, worth an estimated $80bn a year worldwide, is especially buoyant. Fine chemical manufacturers produce relatively small quantities of complex and expensive intermediates – mainly for pharmaceutical and agrochemical companies.

Fine chemicals are buoyant as the giants buy in from outside

Their business is healthy not only because of continued growth in pharmaceuticals but also because the giant drug companies are tending to make less of the chemical ingredients they need for research, development and manufacturing and are buying in more from outside suppliers. According to MTM, a UK fine chemicals producer which spent $112m in October acquiring Hardwicke, a similar US company, the pharmaceutical intermediates market is growing at a rate of 14 per cent a year.

There are other prosperous niches in the industry. For example, Courtaulds of the UK is making large profits out of rayon, a cellulose fibre that is currently in fashion for clothing. An added bonus is that the raw material for rayon – wood pulp – is falling in price, in contrast to most artificial fibres which are made from petrochemicals.

The industry did not indulge in much large-scale merger and acquisition activity during 1990. But there was a lot of smaller scale trading of businesses valued in the $10m to $100m region, as the chemical giants continue to focus on businesses in which they have global strengths and sold those in which they are peripheral players or have no competitive advantage.

The most spectacular corporate activity recently has been in southern Europe. Rhône-Poulenc, state-controlled flagship of the French chemical industry, has been on a four-year multi-billion dollar spending spree, including the purchase of agrochemicals from Union Carbide, miscellaneous chemicals businesses from Stauffer, RTZ and GAF, and, as a climax, the Rorer drug company in 1990.

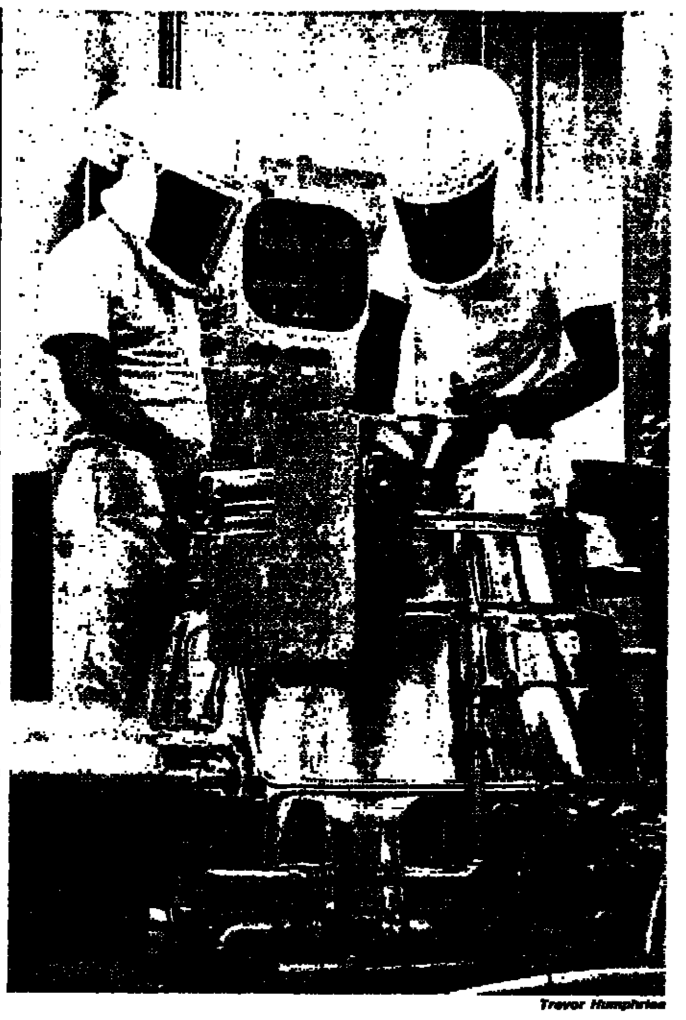
The cost of financing these acquisitions at a time of high interest rates, coupled with the effects of a falling dollar and faltering world economy, have hit Rhône-Poulenc hard in the short term. However Mr Jean-René Fourtou, chairman, said last month that Rhône-Poulenc's profits would rise in 1991, as the benefits of the mergers began to come through – few other chemical company chairmen are in a position to predict better results this year.

The Italian industry had a traumatic year, as privately owned Montedison and state-owned ENI quarrelled over their joint venture in base chemicals, Enimont. Terms for the divorce were finally agreed in November, with ENI buying Montedison's 40 per cent stake for 2,800bn lire ($2.5bn).

Enimont was in any case the weakest of the world's bulk chemical producers. Now that it is firmly under state control, Mr Giorgio Porta, the new chairman, and Mr Giovanni Parillo, managing director, face a huge restructuring task, reducing Enimont's workforce and selling, closing or modernising loss-making plants.

The outlook for bulk chemicals worldwide is not encouraging. Depending on events in the Gulf, the industry may enjoy a bounce off the bottom of the cyclical downturn later this year. But many experts believe it will be saddled with overcapacity well into the 1990s, as new plant commissioned in the late 1980s boom comes on stream. And large companies will have to spend billions of dollars on environmental improvements which will be necessary to stay in business but will not produce immediate financial returns.

Clive Cookson


Trevor Humphries

A high speed mixer-granulator, used to make pharmaceutical tablets at Evans Medical, Horsham, West Sussex

Is it the end of a golden age?

WHILE OTHERS shiver in the recession, the pharmaceutical industry continues to push up earnings by 15 to 20 per cent a year. Its customers, whether public health services or patients paying for drugs out of their own pockets, buy the medicines they need almost regardless of economic circumstances. And needs are growing as the population of most industrialised countries contains a rapidly increasing number of people who are old and chronically ill.

Even though pharmaceutical companies are virtually immune to the ups and downs of the world economy, their prosperity may soon be threatened by a combination of long-term political, economic and technical changes.

Several analysts are warning of trouble to come. "The 40-year run of continuous success for almost all companies in the pharmaceutical industry worldwide is coming to an abrupt halt," says a special report issued by the Economist Intelligence Unit last month. "The pharmaceutical industry is likely to face unprecedented difficulties over the next five years," says Mr Hemant Shah, a leading US analyst.

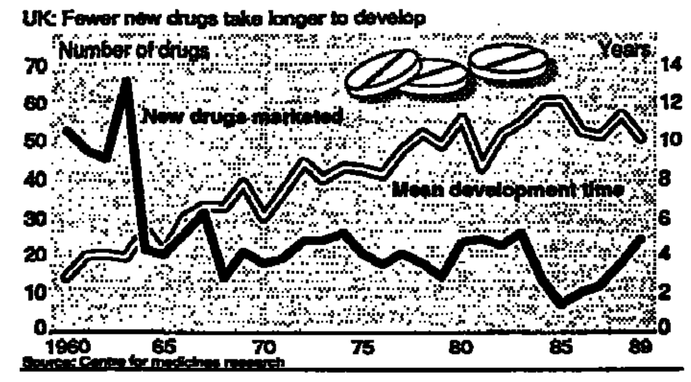
No-one in the industry wants to seem complacent about the future, but some executives have a sense of *deja vu* about warnings of that sort. At various points over the past 25 years people have proclaimed that a golden age of pharmaceuticals was coming to an end – and the gold proceeded to flow in faster than ever.

The most important external constraint on the industry's growth is the pressure from governments worldwide to hold down escalating health care expenditure (which has more than doubled as a percentage of GDP since 1960).

Drugs are a tempting target for government cuts, although they represent only 8 to 10 per cent of total health spending – and an expensive new drug may lead to an overall saving if, for example, it allows patients to leave hospital several days sooner than its predecessor.

The Japanese government has led the way, with mandatory price cuts for existing drugs once every two years (which have amounted to a 45 per cent reduction over eight years). On the other hand, companies can negotiate high prices for new drugs in Japan that make them very profitable for a while. The Japanese pricing system is therefore a powerful spur to innovation.

Pharmaceuticals



The US still has a relatively free market approach to drug pricing. As a result companies have been able to increase the price of old drugs faster than the general rate of inflation, provided that they are still covered by a patent.

However, there was a sign late last year of the increasing pressure to contain costs: Congress passed a bill forcing drug companies to offer substantial discounts to the federal Medicaid programme.

Pharmaceutical companies are going to thrive through the 1990s if they can maintain a flow of innovative drugs that will deliver new benefits that justify charging a high price. All the large pharmaceutical companies are devoting an increasing proportion of their resources to research and development; a typical R&D budget today is 15 per cent of sales.

At the same time R&D costs are escalating rapidly. A genuinely novel drug (what the industry calls a new chemical entity) now costs $200m to $300m to develop. The world's top drug companies need to spend more than $600m a year on R&D to maintain the flow of new drugs at a rate of one or two a year. Or to put it another way, companies which have sales of less than $4bn a year are unlikely to remain independent global players in the pharmaceutical industry.

Pharmaceutical companies are soon likely to see a new wave of mergers, acquisitions and restructuring. But it will not end up entirely as an industry of giants. There will always be room for smaller companies with low overheads, focusing on profitable market niches which the giants have neglected, or making unbranded generic drugs.

Clive Cookson

Cross-border moves

Continued from Page 2

electronics, Sony and Matsushita of Japan have both acquired large US film companies because they believe the future of television manufacturing will depend on their ability to supply programmes as well as sets.

Furthermore, the greater the value added of products, the larger the investment required to develop them and the more specialised and sophisticated the demands they need to satisfy. Positioning them effectively calls for precise market feedback which can be acquired only through intimate knowledge of local demands.

None of these trends makes manufacturing efficiency less important. However, it is no longer sufficient to guarantee competitive advantage. As many Japanese companies are discovering, the further they move up the value scale, the more important it becomes to tailor products to the "culture-specific" features of local markets.

In the past few years, the need to supply increasingly complex products to an ever more varied range of customers has led to a rapid growth of cross-border corporate alliances in almost every industry. The most common aim is to pool complementary resources, such as technology and marketing skills, or to seek viable scale economies.

The attraction of international alliances is that they promise synergistic benefits at relatively low cost. It is unclear, however, whether in practice they amount to much more than transient attempts to respond to the high risks created by turbulent market conditions.

Important corporate alliances which have endured for more than a few years are rare. More often, they are wound up because they have served their original purpose or foundered on problems of management control; alternatively, they mature into full mergers.

The increasingly sombre outlook for the world economy and the problems confronting the world trade system make it difficult to predict the exact path which international business strategies will follow in the next few years.

At a time when economies are slowing everywhere, failure of the Gatt Uruguay Round trade talks would greatly increase the dangers of a reversion to protectionist policies. Paradoxically, however, that could accelerate cross-border expansion if companies reacted to higher trade barriers by stepping up direct investments in foreign markets.

It would be a different story if governments also sought to discriminate against inward investments – a possibility favoured in some US political circles. However, with foreign-owned companies accounting for a steadily rising share of output and employment in most of the industrialised world, governments would need to consider carefully just whose interests would suffer most from such restrictions.

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Shift to the civil market

THE OVERALL emphasis in the aerospace industry is expected to continue to shift from the military to the civil market in the coming year. Airframe and aero-engine manufacturers, along with their component suppliers, have set their eyes on the longer-term growth prospects of the commercial aerospace sector to offset the decline in military spending accelerated by the dramatic political changes in eastern Europe and the Soviet Union, which have brought the Cold War to an end.

Even the Middle East crisis is not expected to change the underlying trend of steep defence cuts. These have forced aerospace manufacturers to launch widespread restructurings of their military activities at the same time as encouraging them to broaden and expand their operations in the civil sector.

In the UK, both British Aerospace and Rolls-Royce have already announced restructuring programmes for their military divisions. BAe is to shed about 5,000 jobs and close two out of six plants in its military aircraft sector, while Rolls-Royce is reducing its workforce at its Bristol military engine plant.

Elsewhere in Europe, job cuts have been announced by all the leading manufacturers with military interests. In the US, defence contractors have also launched extensive restructuring involving the loss of thousands of jobs.

In the face of the downturn in the military business, the challenge for aerospace manufacturers has been twofold. They have had to strive to reduce even further their manufacturing costs to improve their competitive position in a shrinking market by internal restructuring as well as by seeking partnerships, alliances and mergers. At the same time, they have had to rely increasingly on the civil market for growth.

The problem for the industry is that the commercial aerospace market has also entered into a period of considerable uncertainty. Even before the Middle East crisis, there were signs that the good times of the last few years in the civil jet airliner market were coming to an end. The threat of a world recession and sustained high oil prices are putting enormous financial pressure on airlines, which in turn could lead to a reappraisal of future new aircraft orders.

The expectations are for the annual rate of new orders for civil airliners, which reached a staggering 1,753 commercial jets in 1989, to fall back gradually, in line with the planned annual rate of new aircraft deliveries. In 1990 these totalled about 730. Boeing, the world's largest manufacturer of commercial jets, expects total industry deliveries of civil jetliners to average 621 a year over the next 16 years. Airbus, its European rival, is forecasting new deliveries averaging 500-600 aircraft a year over the next two decades.

US-Europe trade frictions on subsidies have been revived

Although manufacturers are working to full capacity on civil programmes, the competitive pressures have, if anything, increased. This has been reflected in the revival of the trade frictions between the US and Europe over government subsidies to the aircraft industry and the fierce battles between both the airframe and aero-engine makers for new business.

Competition continues to be intense both at the top end and lower ends of the market. In the large commercial aircraft sector, Boeing has just launched its long awaited 777 twin engine wide body airliner programme to compete against the Airbus A330/A340 programme and McDonnell Douglas MD-11 trijet. The three leading aero-engine manufacturers (General Electric and Pratt & Whitney in the US and Rolls-Royce in the UK) are also jostling to position themselves in the growing market for heavy thrust engines to power this new generation of wide body aircraft.

In the smaller aircraft market segment, several manufacturers are now proposing new regional jet airliners. BAe recently unveiled plans to build a stretched version of its 146 regional jet powered by two engines instead of four, as is the case for all the current versions of the 146. Fokker is also planning to develop a larger 130-seat version of its Fokker 100 regional jet, while Deutsche Aerospace is actively studying with Aerospatiale of France, Aeritalia of Italy and Casa of Spain the development of a rival 130-seater jet.

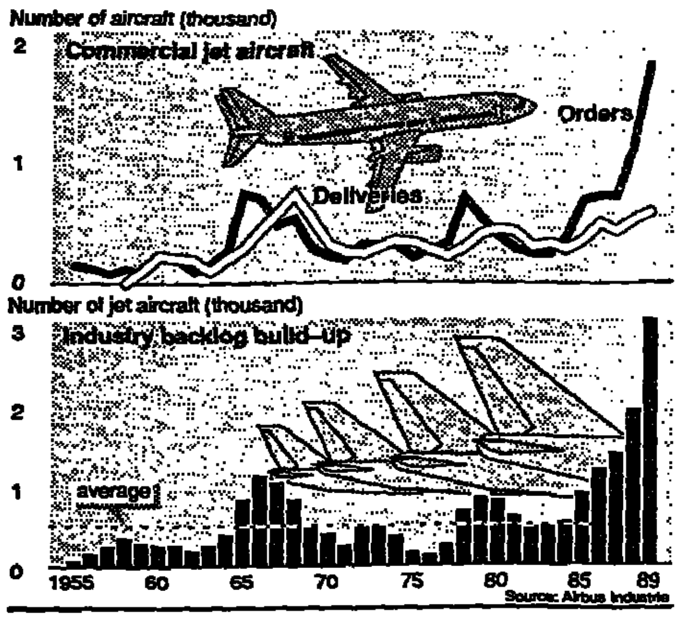
Indeed, the emergence of Deutsche Aerospace as a new force in the world aerospace industry has been one of the most significant and interesting developments in the last year. The restructuring of the west German aerospace industry around Daimler-Benz has created a company with annual sales of more than DM15bn.

Although the industry now faces, in the short term at least, an increasingly uncertain outlook, Boeing still forecasts an overall market requirement of $626bn (in 1990 dollars) and about 10,000 aircraft for the world's airlines between now and the year 2005. However, the US manufacturer, which is producing 34 aircraft a month and has committed itself to produce 38 a month next year, concedes that this huge market could be threatened by the problems in the Middle East.

But Mr Dave Sepanen, Boeing's manager of market research, expects the impact of the Gulf crisis to be "minimal" because the problem appears short-term. "When it is resolved, the market will return to the position currently anticipated on the demand curve," he says.

Paul Betts

Aerospace



Heavy turbulence in the air

THE WORLD airline industry is flying through a renewed period of heavy turbulence. The combination of high oil prices and an economic slowdown in many western economies is putting enormous financial pressures on airline balance sheets.

Yet even before the Gulf crisis sent jet fuel prices soaring, the financial situation of airlines was already deteriorating during the first half of 1990. The International Air Transport Association (Iata), which groups 200 carriers, expects airlines to lose a total of more than $2bn in 1990 on international scheduled services. This compares with a small profit of $300m in 1989 and a $1.6bn profit the year before.

The US has so far been the worst affected by the downturn. Its airlines are expected to report total losses of $1.5bn-$2bn in 1990. Several US carriers have already taken drastic measures in the face of the latest slump in what has traditionally been a highly cyclical industry. Continental Airlines has sought protection from its creditors under Chapter 11 of the US bankruptcy code. Pan American has decided to sell its precious north Atlantic routes to London's Heathrow airport to United Airlines for $400m, while Trans World Airlines (TWA) is selling its Heathrow rights to American Airlines for $445m.

The financial squeeze is expected to accelerate the current wave of consolidation in the US airline industry around a small number of large financially stronger carriers. Indeed, after agreeing to sell its Heathrow rights to American, TWA has now proposed a merger with Pan Am.

But the US airlines have not been the only ones to suffer. Air France, Lufthansa, KLM, and BA are among large European carriers seeing their financial results depressed by the general situation. This has led airlines to launch a new round of cost-cutting and restructuring. Although BA is among the world's financially strongest airlines, Lord King warned that the UK flag carrier was likely to show a loss in the second half of its current financial year.

Consolidation is also continuing in the European airline industry as carriers attempt to position themselves ahead of the latest stage in the European Commission's liberalisation of air transport. BA is seeking to develop new European hubs by attempting to form a new German-based airline at Berlin and continuing to seek a partnership with Sabena of Belgium.

However on New Year's Eve, BA together with KLM Royal Dutch Airlines pulled out of a deal to set up a new European joint airline with Sabena and KLM called Sabena World Airlines. The plan involved transforming Brussels' Zaventem airport into a vibrant hub serving 75 European cities. BA also wants to capitalise on the new opportunities in the Soviet Union and eastern Europe resulting from the new spirit of east-west detente by forming a joint venture airline based in Moscow called Air Russia.

Air France and Lufthansa have forged close co-operation ties. Separately, Air France has absorbed UTA, the French long-haul carrier, and Air Inter, the French domestic airline, while Lufthansa is keen to merge with Interflug, the former east German carrier.

The fast-growing airlines of the Asia-Pacific region have also joined in the airline industry's global game of musical chairs. Although they too have not been spared the impact of the financial downturn, they have sought co-operation pacts and cross-shareholding deals with other international airlines in the US and in Europe.

Perhaps the best example is the trilateral alliance of Singapore Airlines with Swissair in Europe and Delta in the US with all three carriers taking stakes in each other. In Australia, where the domestic airline industry has recently been deregulated, Qantas is now looking for international partners to invest in its capital.

With jet fuel prices likely to remain high in the 1990s, airlines have been trimming back their forecasts for passenger traffic growth. But despite the economic slowdown, demand for air travel is expected to continue to rise in the decade. Guinness Peat Aviation, the world's largest aircraft leasing company, has shaved a few decimal points on its longer-term forecasts. It was expecting annual growth of around 6.25 per cent over the next 10 years. It now thinks annual growth will average 5.75 to 6 per cent.

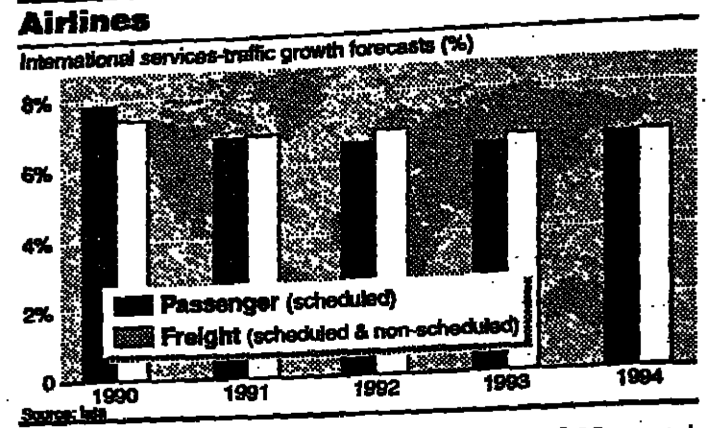
Iata, for its part, forecast 6.9 per cent growth in international scheduled services in 1991, falling to 6.6 per cent the following year and 6.5 per cent in 1993-94. However, these forecasts were made before the full impact of the Middle East crisis on the industry became clear. Iata expects the Asia-Pacific to remain the fastest-growing region, with nearly 10 per cent annual growth for north-east Asia and 8.8 per cent for south-east Asia during the next four years. North America and Europe are expected to show steady annual growth averaging 6.8 and 6.2 per cent respectively.

After a downcycle, the airline industry has traditionally recovered quickly because of underlying longer-term growth in air travel and air cargo demand. But this time, it may not be so easy, warns Mr Gunter Eser, Iata director-general. "The difference comes from congestion," he says.

Unless urgent and extensive investments are undertaken to provide more runways, more terminals and more efficient air traffic control systems, congestion in the air and on the ground could have severe repercussions on the future growth of the airline industry. By the end of the decade, quantifiable annual losses to European economies arising from the failure to alleviate capacity constraints could exceed $10bn, says Iata. Unquantifiable economic and social costs could be even greater.

Paul Betts

Airlines



IATA MEMBERS' RESULTS (in $bn)

	1985	1986	1987	1988	1989
Operating revenues	77.6	89.1	107.8	125.1	144.5
Operating expenses	75.7	86.4	103.0	118.9	140.2
Operating result	1.9	2.7	4.8	6.2	4.3
Percentage of revenues	2.4	3.0	4.5	5.0	3.0
Net result	0.6	0.2	0.9	2.5	0.6
Percentage of revenues	0.8	0.2	0.8	2.0	0.4

Source: Iata

Profit margins are squeezed

FOR MANY of the companies which comprise the worldwide computer industry, 1990 was a profoundly disturbing year. All the indications are that 1991 will provide no relief for those firms and that others, so far unscathed, will begin to feel the pinch.

The industry is caught between dramatic changes in costs and technology which are making a nonsense of conventional marketing expenses and a decline in demand for information technology products both in Europe and the US.

This latter phenomenon is a consequence both of a developing recession in two of the principal markets – the US and the UK – and a growing tendency among large customers to look closely at the amounts they are spending on information technology.

The picture in Japan is somewhat different. There the demand for computer hardware and software remains high. One explanation is that while Japanese computers are as good or better than those from any western manufacturer, Japanese business is well behind the west in its use of automated systems. In consequence, the market for mainframe computers is far from saturated in Japan, unlike the US and Europe, where what growth there is comes from replacement and upgrades to existing installations.

Furthermore, personal computers are now becoming an accepted business tool in Japan as small, portable machines and Japanese character sets become widely available.

But the Japanese cannot long remain immune from the ills now afflicting the rest of the world industry and which have brought disaster or near-disaster for some companies.

The principal causes of the industry's woes are the power now available from low cost microprocessor chips and a growing interest in "open systems" among customers.

The traditional computer industry grew up round a small group of manufacturers of mainframes and minicomputers developing systems based on their proprietary designs and electronic circuitry.

Systems based on these machines are expensive and carry high gross margins. For mainframe systems, it could be 70 per cent or more, which pays for expensive direct marketing forces and other overheads.

Japanese business has still to catch up on automated systems

The profit margins on microcomputers and network "servers" (essentially microcomputers capable of providing data and processing services to workstations attached to a network) are much lower and the competition is much more intense. For instance, there are some 250 suppliers worldwide of IBM PC-like computers.

Such systems are sold through "channels" – dealers, value-added resellers and systems houses. The test for traditional manufacturers is to adjust their cost structures to the shape of the new market quickly enough. Groupe Bull of France, for example, which was caught out badly by the speed of the change, has accelerated plans to bring costs and staffing into line with the new economics from five years to three years.

However, Compaq of the US, a newer manufacturer and IBM's closest competitor in the business personal computer sector, continues to show strong growth and profits while traditional companies are faltering.

The spate of mergers and acquisitions which has characterised the industry over the past few years is now decelerating. ICL of the UK was acquired by Fujitsu of Japan in the middle of 1989 but Groupe Bull, Olivetti of Italy and the computer division of Philips of the Netherlands seem to have decided to continue the battle alone. All are shedding staff heavily in a attempts to balance sales and expenses.

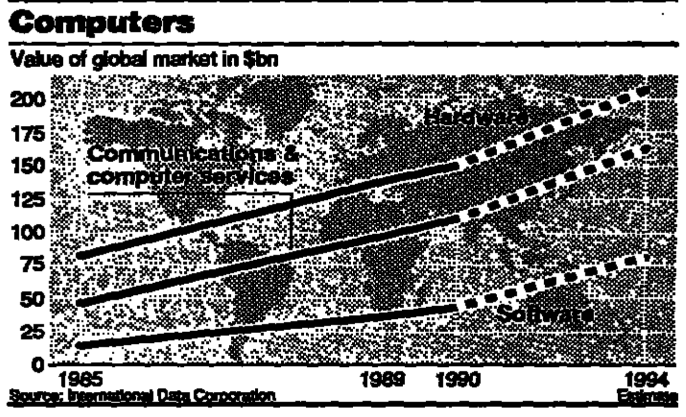
AT&T, whose computer division has lost money over the past six years, is trying to force a merger with NCR, one of the US's oldest business machine companies, in a deal which has some technological synergy, but which many observers believe could prove a management nightmare.

With computer manufacturing rapidly becoming a commodity business, many suppliers are seeking new and more profitable avenues; International Business Machines, for example, is talking to British Telecom about an as yet ill-defined partnership to provide electronic business services over its network.

As the decade progresses, an increasing number of companies now seem likely to turn to "facilities management" (FM) as a way of cutting data processing costs. This involves paying a third party a fee to manage all a company's data processing or communications activities. The services that IBM and BT plan to offer could be examples of facilities management in the broadest sense.

Alan Cane

Computers



Oil: prices set to plunge

THE INTERNATIONAL oil industry has just been through an exceptionally turbulent year, and 1991 promises more of the same.

The sting of extremely high oil prices may be the most lasting memory of 1990, but it is worth recalling just how much of a roller-coaster ride it was. Oil prices started 1990 at four-year highs, above $20 a barrel, following a record December cold snap in the US. From there it was a steady decline to about $14 for North Sea Brent oil in June as members of the Organisation of Petroleum Exporting Countries engaged in one of their usual bouts of competition for market share.

This was considered an extremely violent price swing, until Iraq's invasion of Kuwait intervened to make all this look boring.

Oil prices peaked at over $40 a barrel in October but then retreated as oil output by Opec, and especially, Saudi Arabia, beat all expectations and as worldwide demand for oil weakened in the wake of both higher prices and slower economic activity. On the usual basis of supply and demand projections, oil prices of late 1990 look set to plunge steeply this year – some industry executives are talking about oil at $10 again – and it is only the threat of war in the Middle East that is holding prices nervously aloft.

1991 looks certain to break a pattern established over the past five years in which oil demand has risen annually by about 1m barrels a day. Instead, demand could easily fall by that amount. This is one reason why the oil industry has not been euphoric about high prices. Oil companies have not yet revised drilling or development plans in response to turbulence in the markets.

The only important exception to this is Saudi Aramco, the national oil company, which has rolled forward plans to raise Saudi oil output capacity. It now hopes to lift this from 8.5m to 10m b/d by 1994. With Iraqi and Kuwaiti production capacity no doubt returning to the market during that period, a global shortage of oil looks unlikely in the medium term. But that does not rule out the possibility of a short, sharp disruption in a war.

Instead of going up by 1m barrels a day, demand could fall by that amount

Oil industry activity in the North Sea across all parts of the business is at a peak, a trend set in motion some years ago. It is seen as a good prospecting area in a stable political environment, and the UK government has obliged by making exploration acreage available on a regular basis. As a result, drilling levels hit a record last year.

The level of offshore activity has also been pushed up by two important factors. First, production platforms have had to be modified to comply with new safety regulations stemming from the Piper Alpha disaster 2½ years ago. Second, older platforms like those in the Brent and Forties fields have needed top to bottom refurbishment to extend their working life. And there has also been a string of new development projects made possible by better technology and design that has lowered costs.

This has been wonderful news for Britain's offshore service and supply industry, just as the UK economy was slipping into recession. But some in the industry say costs have risen too rapidly and the intense level of activity may drop sharply in years ahead.

Internationally, the most exciting part of the landscape will continue to be the Soviet Union where several oil companies have signed joint venture agreements. It is seen as possibly the last great underexplored region of the world that may hold out vast prospects. But the agreements have little flesh on them, and the real race among oil companies is to start work in the field and come out with oil and dollars. That could take many years.

In the longer term, the most expensive and worrying item on oil company agendas is the environment. The strength of the environmental movement was shown when even pressure brought by the Gulf crisis, plus explicit support from the US government, failed to help Chevron overcome objections to the start of production on its Point Arguello platform off the coast of California.

In refining and marketing, oil companies collectively will have to spend billions of dollars to clean up operations in the years ahead.

Steven Butler

Clear victor on sharp screens

THE American semiconductor industry will this year look to a traditional strength in its attempt to slow Japan's domination of the chip business: US government pressure.

The five-year US-Japan semiconductor agreement comes to an end this summer and the Americans are asking their government to ensure its renewal in some form. But Japanese industry and government representatives are equally insistent that it should not be renewed.

The 1986 pact was designed to prevent the dumping of Japanese chips on the US and world markets. It was also intended to open Japan's chip market to foreign suppliers.

The US chip makers accept there is now a "more positive trading relationship" between the two countries. As a result, the Americans are prepared to see an end to the 1986 "fair market value" pricing system under which the US Commerce Department determines a fair price for Japanese memory chips on a quarterly basis.

The US industry wants further action, however, on the understanding between the two countries that the foreign share of the Japanese market should be increased to 20 per cent. Although it has improved, the foreign share is still some way short of that goal. The Japanese, for their part, say their market is now open to foreign suppliers. All that holds the foreigners back is their level of service and reliability, the Japanese say.

Europe's dwindling band of chip companies face increased competition on their home ground from US and Japanese manufacturers. Texas Instruments of the US is setting up a chip plant in Italy. Fujitsu of Japan is building a factory in the UK; Hitachi and Mitsubishi are setting up in Germany.

The European companies have put their faith in Jessi, the $5bn Joint European Submicron Silicon research initiative. However, Philips of the Netherlands, which will report large losses this year, has cut its commitment to the programme. An additional problem for Jessi is that the newly-arrived Americans and Japanese insist that, as European-based manufacturers, they should be allowed to join.

According to Mr Jim Eastlake, of the consultancy Dataquest, worldwide semiconductor sales will increase by 9.2 per cent to $63.8bn in 1991.

In the consumer electronics field, 1991 should provide further evidence of whether Europe has any prospect of catching up with Japan in high definition television (HDTV).

All consumer electronics companies, east and west, believe that HDTV will be the most important technology of the 1990s. The sharp screens will find their way into medical, defence and industrial technology, as will the semiconductors used in high definition sets. Philips and Thomson of France say they are making good progress in developing high definition systems. The Japanese, however, in close collaboration with their government and broadcasters, are way out in front.

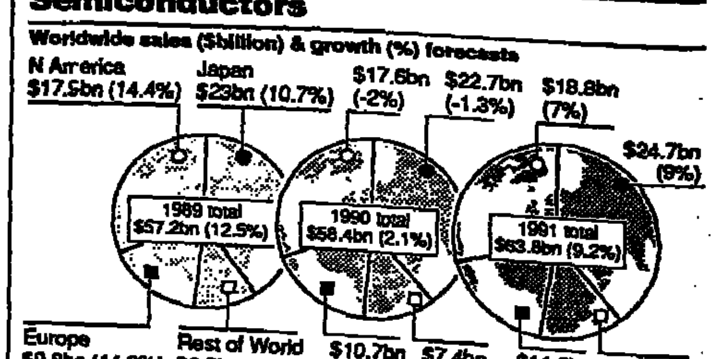
Europe has been trying to develop D2-Mac, an intermediate system with clearer pictures than those that appear on screens today but which falls short of HDTV. However, the Europeans have been dealt a severe blow by British Satellite Broadcasting's decision to abandon D-Mac, the UK version of D2-Mac, and merge with Sky Television. BSB had offered the most extensive enhanced definition television service in Europe.

The Japanese, by contrast, are ready to launch a fully-fledged high definition broadcasting service. NHK, the Japanese broadcasting corporation, has transmitted an hour of high definition television daily since June 1989. At the end of this year or the beginning of 1992, NHK intends to start broadcasting eight to 10 hours of HDTV a day.

The consumer electronics market worldwide will grow by 6 per cent to $130.1bn in 1991, says Mr David Mercer of BIS Mackintosh, a high technology consultancy. But he expects consumer electronics sales in Japan to grow by only 3 per cent this year to $22.5bn. Sales in western Europe will be slightly healthier, up by 5 per cent to $42.3bn. US sales will rise by 6 per cent to $26.6bn.

Michael Skapinker

Semiconductors



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Trucks: the road to restructuring

AFTER HALF a decade of rising sales, demand for trucks in western Europe began to fall last year. The development is uneven, however, with the already steep recession in some markets such as the UK and Spain being balanced by strong growth in Germany.

The sharply differing fortunes of key markets is leading to a stark divergence in the financial performances among Europe's truck producers. The German truck makers Daimler-Benz and MAN are still very busy, with MAN enjoying a record level of new orders and lengthening delivery times.

By contrast, some truck makers that have been exposed to the steep downturn in the UK and Spanish markets in particular, such as DAF of the Netherlands, Enasa, the Spanish producer of Pegaso trucks, and ERF of the UK have already plunged into loss.

Most UK producers have been forced onto short-time working for parts of the year and have cut their workforces. Several UK truck makers' output in 1990 was only half the level of the previous year.

According to a recent report from Automotive Industry Data, the UK-based automotive analysts, "the European truck market has been looking steadily more ragged as sales keep slipping in most markets during the second half of 1990, prompting truck makers to build fewer trucks than during the same period of 1989."

The report says that European truck production (above 3.5 tonnes gross vehicle weight) in the first eight months of 1990 was 10.7 per cent lower than a year earlier.

DRI Europe, a leading European automotive forecaster, suggested in its latest study that new truck registrations (above 3.5 tonnes) would fall in 1991 in 15 markets to 313,000 from 318,000 in 1990 and 334,000 in 1989. Truck production (above 3.5 tonnes) in western Europe is expected to drop to 375,000 in 1991 from 377,000 in 1990 and 421,000 in 1989.

Demand in 1990 weakened most seriously in the UK, Spain, Sweden and the Netherlands. By contrast, German truck sales have risen for a sixth year in succession.

The renewed pressures on margins and mounting investment needs are leading to another wave of restructuring. Losses are not confined to Europe, however; several truck makers in north America have also suffered.

Japanese heavy truck makers, led by Hino and Nissan Diesel, continue to benefit from high domestic and export demand. But the slump in sales of midget commercial vehicles in Japan has deepened and the total output of goods vehicles fell by around a fifth in the first half of 1990, hitting specialist small van makers, such as Daihatsu and Suzuki.

In western Europe, truck makers face the deregulation of the road haulage industry as the single European market takes effect after 1992, with its uncertain impact on demand.

Commercial vehicle producers must decide whether to expand distribution and sales networks or set up local assembly operations in eastern Europe. Daimler-Benz has already announced plans to build a truck assembly plant in eastern Germany, and has reached an agreement to start licensed bus production in the Soviet Union.

In Europe the concentration of the commercial vehicle industry is gathering pace, partly under the pressure of falling sales, but more importantly in the face of mushrooming costs for new product development and the cost of meeting tougher environmental regulations.

In the most significant realignment of forces in the European truck industry to date, Volvo of Sweden and Renault of France have embarked on a far-reaching alliance, which will make the new combination the world's biggest heavy truck maker, ousting Daimler-Benz of west Germany from its traditional leadership of the industry.

Iveco of Italy has followed with the acquisition of a majority stake in Enasa, the troubled Spanish state-owned maker of Pegaso trucks, which includes Seddon Atkinson, the specialist UK maker of heavy trucks.

After these deals and MAN's acquisition of the Steyr truck operations in Austria, the industry is now dominated by three groupings: Daimler-Benz, Iveco (including Enasa) and Renault/Volvo with shares respectively in the overall truck market (5 tonnes and above gross vehicle weight) of 23.8, 22.5 and 21.7 per cent.

In the shadow of the big three, there is a further grouping of three medium-sized truck makers, DAF of the Netherlands, which took over Leyland of the UK in 1987, MAN (including Steyr), and Scania, the heavy truck subsidiary of Saab-Scania of Sweden.

The challenge of 1991 will be to make the new combinations work in a market that in many countries is sliding deeper into recession. At the same time, many in the truck industry are convinced that the restructuring is far from finished.

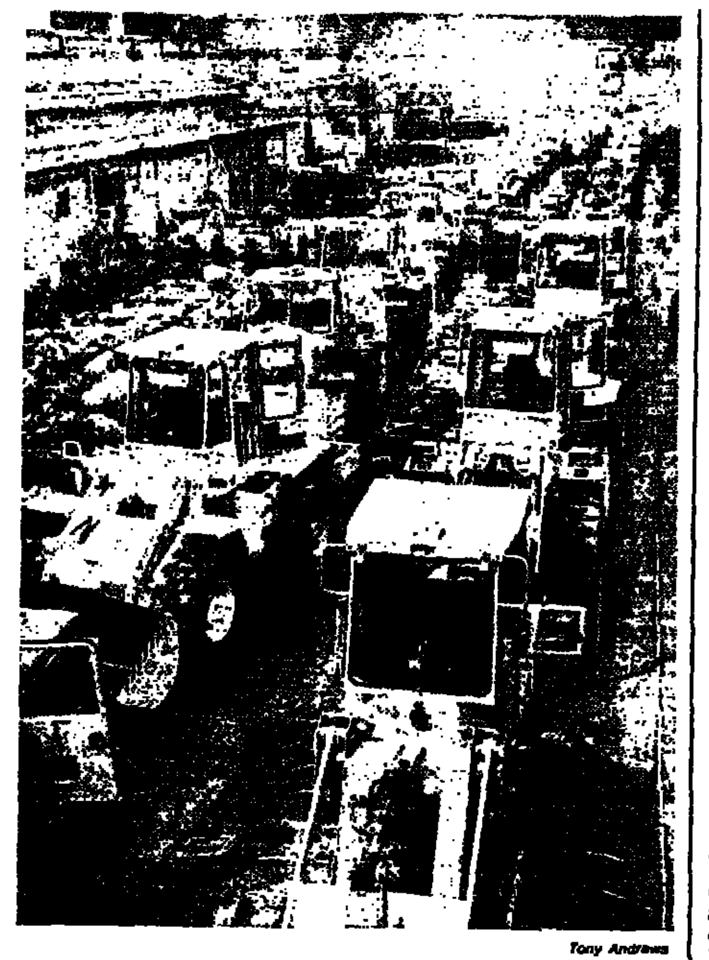
By the end of the 1990s, says Mr Helmut Werner, deputy chairman of Mercedes-Benz, "Europe will have three supranational alliances, each with a major company at its core."

While the clouds have darkened over much of Europe's truck industry, US heavy truck makers have already endured two years of falling sales.

Navistar, the US heavy truck market leader, slumped to a net loss of $11m in the 12 months to the end of October.

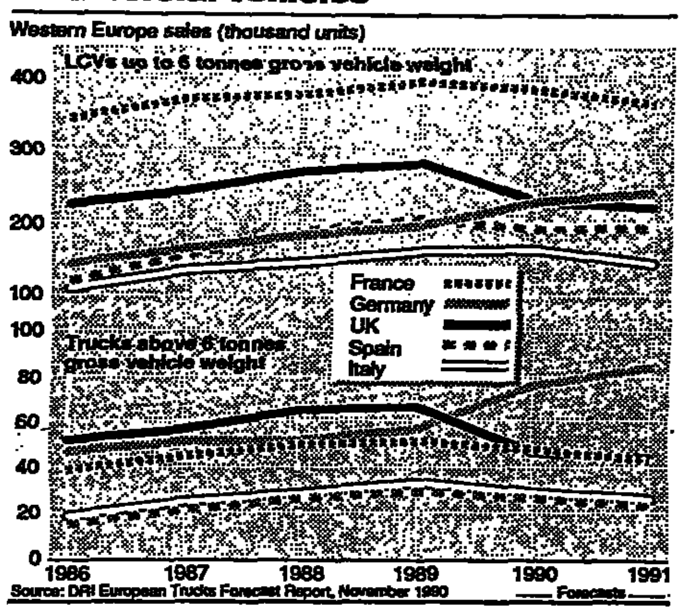
Faced by an expected $180m loss at Mack in 1990, Renault Véhicules Industriels, the commercial vehicles subsidiary of Renault, took over the 55 per cent of equity it did not own. Restructuring Mack is now the French group's "top priority."

Kevin Done


Tony Andrews

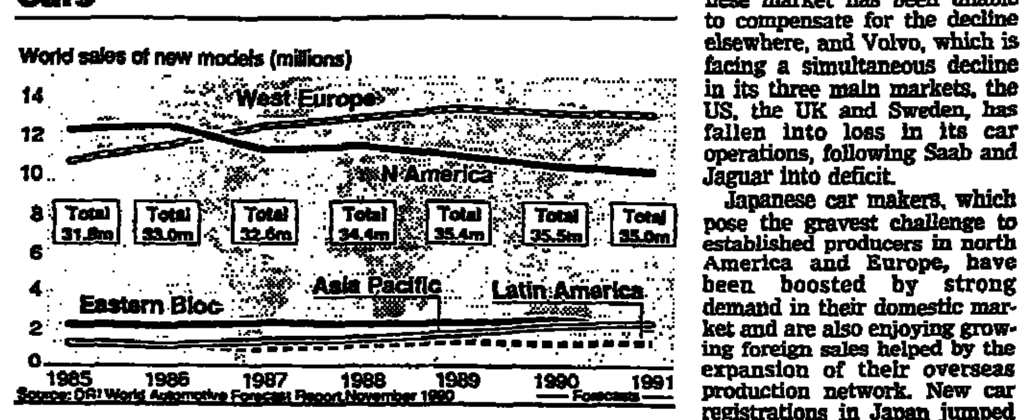
The production line for front end loaders at the Dormash Scientific industrial amalgamation plant in Minsk, Soviet Union

Commercial vehicles



Time to fasten seat belts

Cars



WORLDWIDE DEMAND for new cars is expected to fall this year for the first time since 1987. Car makers in north America and western Europe are preparing to face harsher times, as profits are squeezed and competition intensifies.

In the US in particular the traditional "big three" car makers, General Motors, Ford and Chrysler, are struggling to maintain profitability as the core north American automotive operations fall again into loss. Financial analysts have begun to speculate about the security of dividend payments.

Ford has recently warned that it expects to report a deficit for the final quarter of 1990, its first quarterly loss in eight years. It has faced mounting losses from its domestic auto business, as the US car market has weakened further and the costs of its buyer incentive programmes have risen.

The overall US car market declined again in 1990, and the US auto industry expects a further fall this year. According to Ford, total US car and truck sales are likely to decline to around 13.5m this year, 5 per cent down from the 14.2m achieved last year. Total US car and truck sales peaked at 16.3m in 1986, but fell to 15.2m in 1987. There was a short-lived recovery in 1988 to 15.8m, but the downward trend resumed in 1989 with a drop to 14.8m. Sales this year are expected to be 17 per cent below the 1986 peak.

Mr Philip Benton, Ford Motor president, warned last month that the company could cut its US white-collar workforce by up to 7 per cent this year. "Profits are under enormous pressure in the north American market ... no-one in his right mind would go into the car business in north America."

GM, still the world's biggest vehicle maker, was forced to announce late last year a $2.1bn special charge against its earnings for the third quarter of 1990 for a restructuring programme that includes the closure of at least four US plants and provision for closing additional north American plants and warehousing operations. As a result, it recorded a net loss of $2bn for the third quarter.

The relentless Japanese challenge is one of the biggest factors behind the pressure now being exerted on the traditional US producers.

The focus of the Japanese effort to build a global car production base may now have turned towards western Europe, but to date the US domestic producers have borne the brunt of Japanese competition. Cars have started to roll in increasing numbers off the lines of the Japanese assembly plants developed in north America during the second half of the 1980s.

Mr Harold Poling, Ford chairman, warned last month: "Competition in the automotive segment will continue to be brutal. Japanese transplant production in the US is expected to increase from 1.3m units in 1989 to 2.4m in 1992. This will only compound excess worldwide automotive capacity, which reached 8.4m units in 1990. The impact has been felt most severely in north America, where nearly 6m units of that excess is being aimed."

Demand this year is likely to fall but the outlook is brighter from 1992 to 1995

In western Europe new car sales fell last year, ending five successive years of record sales. Sales peaked at some 13.4m in 1989 but were 1.1 per cent lower in the first 11 months of 1990 and are expected to fall again in 1991.

According to Mr Carl Hahn, chairman of the management board of Volkswagen, Europe's leading car maker, new car demand is expected to remain strong in Germany but to weaken in other western European markets and in north America. VW expects some improvement in south America after the difficulties experienced last year.

The performance of different markets in western Europe began to diverge widely last year with the UK and Spain in particular falling into steep recession, while sales in Germany, the largest single European market, rose strongly, stimulated by demand for cars in eastern Germany.

Volkswagen and General Motors of the US (Opel/Vauxhall) have continued to enjoy buoyant demand in Europe, but some other European car makers such as Fiat of Italy have already been forced to cut production and lay off workers.

Smaller European producers such as Volvo, Saab and Jaguar have been hard hit by falling sales in north America and Europe. Success in the Japanese market has been unable to compensate for the decline elsewhere, and Volvo, which is facing a simultaneous decline in its three main markets, the US, the UK and Sweden, has fallen into loss in its car operations, following Saab and Jaguar into deficit.

Japanese car makers, which pose the gravest challenge to established producers in north America and Europe, have been boosted by strong demand in their domestic market and are also enjoying growing foreign sales helped by the expansion of their overseas production network. New car registrations in Japan jumped by 11.9 per cent in 1988, by 18.5 per cent in 1989 and by an estimated 12.4 per cent last year.

According to DRI, the automotive analysts, the pace of expansion in Japan will slow this year with a fall of around 4.4 per cent to 4.73m from record sales of 4.95m last year.

This year DRI expects new car demand worldwide to decline by around 1.3 per cent to 35m from 35.5m in 1990, with only the Asia Pacific and Latin American markets likely to be resilient against the general depression.

In the short to medium term DRI says that the prospects for the world car industry will be dominated by the Gulf crisis, while in the longer term key factors include the European single market and the pace of trade liberalisation, opportunities arising in eastern Europe and calls for environmental protection.

The outlook is brighter from 1992 to 1995 with a forecast rise in world car sales by 4 per cent to just under 37m units for 1992, and demand rising to almost 40m units in 1995.

Kevin Done

Motor components: threat of the 'transplants'

MUCH OF the west's motor components industry faces a year of increasingly tight squeeze on profit margins and intensified competition from Japanese suppliers setting up an ever-greater number of "transplant" manufacturing facilities outside Japan.

The relatively lacklustre prospects are mainly the inevitable consequence of weakening economies, western Europe's car markets faltering after four successive years of record sales, a sharp downturn in north American car and truck markets and the uncertainties of the Gulf crisis.

One components sector in particular, the $47bn a year world tyres business, is plunging towards a crisis of its own: Tyre over-capacity is growing as new production facilities in which the industry has invested heavily during the past three to four years have begun coming on stream at the same time as markets weaken.

Most of the six leading tyre makers, who together control more than 80 per cent of the world market, are descending into severe losses. And after a year in which Groupe Michelin took over Uniroyal Goodrich of the US to become the world's largest tyres group, the prospect is of further large-scale rationalisation with a possible merger between the tyre activities of Pirelli of Italy and Continental AG of West Germany.

There are partial exceptions to the overall gloomy components picture.

□ Germany's vehicle industry is expanding as it endeavours to meet the transport needs of a new united Germany;

□ vehicle production in Japan is continuing to expand against a background of high economic growth and a booming domestic car market;

□ the UK, despite falling domestic vehicle sales and the prospect of a squeeze for component suppliers in the short term, is the chosen site by Nissan, Toyota and Honda for car production. Their combined output is likely to be more than ½m vehicles a year before the end of the decade.

With total UK output of 2m-plus cars a year expected from the mid-1990s onwards – compared with less than 900,000 in the early 1980s, the country is thus witnessing the start of an inward wave of investment by foreign component makers, ranging from Robert Borsch of West Germany and Nippondenso of Japan.

At the beginning of 1990, an eastern Europe emerging from communism, and still relatively unmotorised, was seen as offering great potential for both the west's vehicle and component industries. Though the potential is still there – as Volkswagen's takeover of Skoda of Czechoslovakia and ambitious vehicle projects by Fiat in the Soviet Union, illustrate – the initial enthusiasm has become muted as the full scale of the region's economic and industrial problems has become apparent.

Yet even the expansionist Japanese components industry is not without its problems. The sharp growth in car demand in Japan of the past five years probably has some way to run, as the number of vehicles per head of population is still only about a half of US levels. But component makers are increasingly being hit by labour shortages in a country where there are now about 1.5 jobs available for each person able to fill them.

The result has been a sharp increase in labour costs, narrower profit margins and a growing search for overseas production sites.

Indigenous North American and European component manufacturers thus face the prospect of even stiffer competition from their Japanese counterparts than expected.

They had envisaged that the 300 Japanese component suppliers who have set up shop in the US would seek business from General Motors, Ford and Chrysler as well as the Toyota, Nissan and other car "transplants" which provided their initial incentive to go to the US.

The European components industry expects similar overtures to Peugeot et al from Japanese suppliers to the UK "transplants".

What it has not necessarily bargained for is the larger-scale influx of Japanese component makers likely to occur if investment decisions are based not just on supplying car plants of all types inside Europe, but on shipping components as a matter of course back to car plants in Japan.

This is already happening in the US, from where Akebono Brake Industry, for example, is shipping more than 100,000 brake pad sets a year to Japan. It expects to ship far more.

John Griffiths

Steel: story of downturn is familiar

THE CLOUDS are gathering over the world steel industry. After several years of strong growth, producers are preparing for something much more familiar: a downturn which will put their finances under renewed pressure.

Only in the last few years has the industry recovered from the crisis of overcapacity which developed in the 1970s and lasted until the mid-1980s. That crisis prompted different approaches to restructuring in Europe, the US and Japan: these will be tested in the next few years.

In Japan steel groups cut back on capacity but diversified into electronics and other growth industries. Latterly, Japan's steel producers have followed its auto makers into the US market.

The US industry was rationalised further and faster than most others. Most US integrated steel producers are dependent on joint ventures with Japanese steelmakers. The recession will test whether Japanese technology, finance and management expertise have really changed an industry still fragile after the traumas of the last few years.

In Europe price controls and production quotas imposed by the European Commission had some success in reducing overcapacity in the crisis of the 1970s and early 1980s. But the manifest crisis regime was politically negotiated rather than a response to high costs. As a result, Europe has a steel industry made up of producers with very different cost structures. There have been only limited moves towards an international restructuring of the industry within Europe which would allow the lowest cost producers to expand at the expense of the least efficient.

This recession comes as the EC and its steel producers are considering whether to amend the Treaty of Paris which sets the framework for regulating the industry. Pressure from steel consumers, and some producers such as British Steel, to have the treaty abolished has been resisted. It is almost certain that, as the downturn gathers momentum, there will be calls for the crisis measures to be reimposed to protect the industry from competition. This recession will be a test of how far the European industry really has been de-politicised.

World steel production next year is forecast to fall to 454m tonnes, the same level as in 1980, compared with a low of 416m tonnes in 1986, according to the Economist Intelligence Unit and the International Iron and Steel Institute. However, the decline in output will be unevenly shared among the world's steelmakers.

Producers in Europe, the US and Japan will bear the brunt of the downturn, while those in the developing world such as Taiwan, South Korea and Brazil will continue to expand output. This raises the prospect of intensifying trade conflicts over steel as developing countries seek export markets for their growing output while producers in the developed world attempt to defend their domestic market shares.

Steel producers are already coming under pressure. British Steel, which suffered a 27 per cent drop in pre-tax profits for the first six months of 1990-91, is making more cuts to reduce costs. Hoogovens, the Dutch producer, is in the midst of a four-year cost-cutting drive, while Cockerill Sambre and Arbed, the Belgian and Luxembourg producers, are discussing pooling some of their interests. Ilva, the reconstituted Italian state-owned group, was one of the guiltiest parties in the 1970s, expanding at a time when the European industry was already hit by overcapacity. It is now showing a new interest in rationalisation.

However, the future of the European steel industry really turns on Germany, which accounts for a third of EC production. Restructuring in Germany has not moved as swiftly as in other countries such as Britain and the US.

In the US Inland Steel recently announced sharply lower profits. This presages similar reports from other integrated producers. Many, such as USX, are still only just finding their feet after the turmoil of the last decade.

In addition to these economic pressures, steel producers are having to come to terms with technological and environmental challenges that will require substantial investment in the next few years.

The competitive threat of the mini-mills such as Nucor is growing. These are at the leading edge of innovative methods, such as thin slab casting which cuts the number of steps in the steelmaking process and improves quality. Integrated steelmakers are already investing in rolling and finishing facilities to provide special coatings as well as secondary processes such as vacuum degassing to improve quality. In the next decade they may have to invest in even more radical technologies. British Steel's research programme is focused on thin strip casting – a step beyond thin slab casting – which should further reduce the steps in steelmaking.

In addition, steelmakers face pressure to make production less environmentally damaging. This will require investment in basic steelmaking processes, particularly blast furnaces and coke production. Most integrated steel producers have vast ovens to turn coal into coke. Environmental controls will oblige them to invest in technologies such as direct coal injection to allow coal to be used within blast furnaces.

The late 1980s were a brief respite for the world's steelmakers. In the next few years the financial, technological and environmental pressures on them will mount.

Charles Leadbeater

A gear drive being assembled at Davy's Sheffield works

STEEL: THE MAIN PRODUCERS

(figures in millions of tonnes)

	1988	1989	1990*	1991*	1992*
Belgium	11.2	10.9	10.7	10.3	11.0
France	19.0	19.3	18.6	18.7	19.8
Italy	23.7	25.1	24.1	23.6	24.5
Netherlands	5.5	5.7	5.3	5.4	5.8
Spain	11.9	12.7	11.9	11.3	12.3
UK	19.0	18.8	17.4	17.0	18.2
W Germany	41.0	41.1	38.6	37.8	40.8
European Community	136.5	138.6	131.4	129.1	137.7
Turkey	8.1	7.7	7.9	8.9	10.2
Europe outside EC	25.7	25.1	24.5	26.1	28.1
Japan	105.7	107.9	107.6	102.3	100.6
US	90.1	88.4	81.5	77.7	82.4
Brazil	24.7	25.0	23.5	26.5	28.2
South Korea	19.1	21.9	22.1	21.3	20.8
Canada	15.2	15.4	14.0	14.9	16.1
India	14.3	14.4	14.1	14.5	15.8
South Africa	8.6	9.5	8.6	8.4	9.1
Taiwan	8.3	8.6	7.5	7.9	10.0
Mexico	7.8	7.7	7.3	8.2	8.1
Australia	6.4	6.7	6.3	6.3	6.7
WORLD TOTAL†	473.4	480.4	458.9	454.4	473.7

*Forecast †Includes other producers Sources: IISI, Economist Intelligence Unit forecasts

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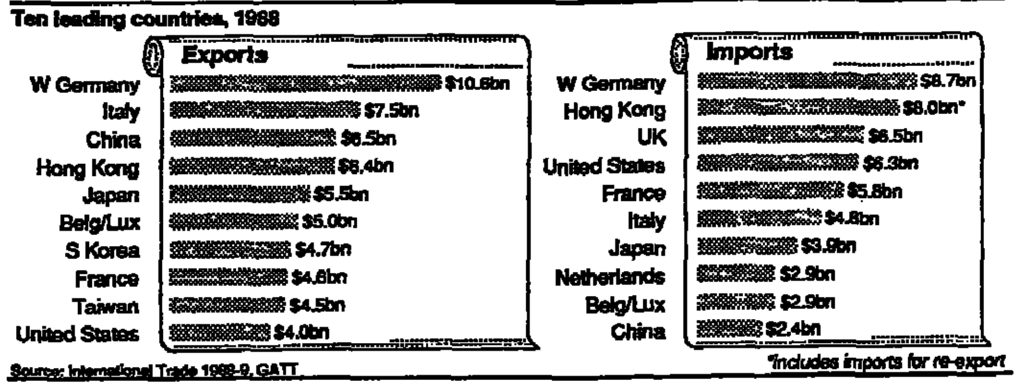
Textiles

Ten leading countries, 1988



Source: International Trade 1988-9, GATT

*Includes imports for re-export

The future: still way down the agenda

WHICHEVER WAY you look at it, 1990 was a ghastly year for the international textile and clothing industries.

Raw material prices ricocheted up and down. The US, largest single source of textile and clothing sales, slipped into recession. Worst of all, the world's trade ministers procrastinated – and procrastinated again – over the fate of the Multi-Fibre Arrangement.

The dominant issue of the year was the future of the MFA. By the beginning of the year all the various factions in the industry had agreed, or been forced to accept, that the MFA would not be renewed when it expired at the end of 1991 and that textiles would, in future, come under the aegis of the General Agreement on Tariffs and Trade.

Yet when it came to considering what, if anything, should succeed the present agreement, whether it would be phased out and, if so, over what period, the industry was in disarray. The Europeans argued for one thing, the Americans for another and the developing countries disagreed with both.

The real problem for the industry was that nothing, but nothing, could be done about deciding the future of the $200bn (£100bn) world textile trade until the squabbles over farming reform had been settled. Throughout the year the world's trade ministers shuttled from summit to summit. The farming feud simmered on. Textiles was still a long way from the top of the agenda.

The uncertainty over the MFA may have been the dominant issue in international textiles last year, but there were *many other issues for the* industry to mull over.

The fluctuation in raw material prices posed serious problems for some sectors. The sharp fall in wool prices last summer was disastrous for some companies, which were left with high stocks of overpriced fibre.

The spectre of US protectionism surfaced last autumn when the International Trade Commission upheld an anti-dumping action against acrylic sweater manufacturers in Hong Kong, South Korea and Taiwan. The action, the biggest anti-dumping case in the US since the steel industry fracas of the early 1980s, caused considerable concern in the Asian clothing industry.

The US economic slowdown has cast a cloud over the industry

At the same time the economic slowdown in the US – and the instability of the American retail sector, still blitzed by the leveraged buy-*outs of the late 1980s* – have cast a cloud over the industry.

The sluggish state of the US market has already created difficulties for its textile and clothing manufacturers many of whom – notably Burlington and Farley Industries – are also struggling against the legacy of LBOs. These problems have been aggravated by a sharp increase in US imports.

This scenario has been replicated in the UK, where the textile and clothing industries are also struggling against a slowdown in consumer demand and increasing imports. Thousands of jobs were lost in the UK last year and several large companies went out of business.

Trading conditions in conti*nental Europe are rather* healthier. However the changes in eastern Europe are causing concern in some sectors of the industries.

The optimists see the opening of eastern Europe as an opportunity to reach new consumers. The pessimists see the region – which, according to one estimate, has twice as much textile capacity as western Europe – as yet another source of low cost competition.

In the meantime, expansion of the emerging textile and clothing producers of Asia and, to a lesser extent, Africa, at the expense of the established players in Europe and North America seems set to continue.

Even in Asia the textile and clothing industries are in a state of flux. South Korea and Taiwan *are now experiencing* the problems Hong Kong has faced since the mid-1980s of trying to offset higher costs and labour shortages by upgrading the quality of their output.

The new generation of low cost textile producers – Malaysia, Indonesia and Thailand – is continuing to gain momentum. And that trend shows no sign of stopping – whatever happens to the MFA.

Alice Rawsthorn

The cycle's low point

THE OUTLOOK for manufacturers of white goods – major domestic electrical appliances – is the bleakest *for many years in north Amer*ica, and not much brighter in Europe or Japan.

Mr Mark Hassenberg of New York securities firm Donaldson, Lufkin & Jenrette estimated in the autumn that US factory shipments would drop by 5 to 10 per cent in 1991, after *2 per cent last year, and said* the industry was at its most vulnerable for 15 years.

In Europe, leading manufacturers expect overall demand to fall by 1 to 2 per cent this year after a 2 to 3 per cent decline in 1990. In Japan, white goods groups will be happy if *sales match last year's level.*

The industry is not only overshadowed by fears of war and recession but also finds itself at low points on the *replacement cycle* in many countries. With the life span of many major appliances averaging 12 years or more, many consumers who established households or traded up in the mid-1980s can defer new purchases for some years yet.

This means manufacturers have little reason for immediate optimism. Slack conditions in many European and north *American markets contrast* sharply with the picture only a few years ago when they went on a binge of consolidation.

But Whirlpool, the world's largest manufacturer, is determined not to be blown off its long-term course, according to Mr David Whitwam, president. *Whirlpool this year is expected* to take full ownership of the European business in which it bought a majority shareholding from Philips in 1989.

Maytag, its US rival, needs lower UK interest rates to reap the benefits of its purchase of Hoover in 1988. The joint ven*ture between Britain's General* Electric Company and its US namesake has not borne much fruit yet, although the former's Lord Weinstock appears to have chosen an opportune moment to sell GE the 50 per cent stake in Hotpoint.

Swedish-based Electrolux, the most acquisitive appliances company in the late 1980s, has already had to pull in its horns. In the first nine months of 1990, profits fell by 62 per cent. Electrolux is cutting its worldwide workforce by 10 per cent and its US subsidiary, *White Consolidated, may be* the least well-placed to cope with the troubled north American market.

Looking at the US, Mr Hassenberg says: "Replacement demand is less robust than normal, and the average age of appliances in consumers' *hands is younger than usual.* As a result, changes in consumer confidence will play a more important role than normal in determining demand."

Germany is the only bright spot in the European market, but its buoyancy is almost entirely a result of demand *from the eastern Länder. Few* expect this to continue on the same scale. Microwave oven sales have fallen in northern Europe, having reached a resistance point in penetration and run up against a health scare in the UK.

In Japan, interest rate rises and the housing market slowdown are having an inevitable, depressing effect. But manufacturers such as Matsushita Electric see continued growth in dishwashers and washing machines, as more Japanese move up from twin tubs.

In other categories, the Japanese market is showing signs of saturation. For example, replacement demand for refrigerators peaked in 1990, and total sales are likely to decline this year. Yet sales of models both below 120 litres capacity and those larger than 400 litres are expected to increase.

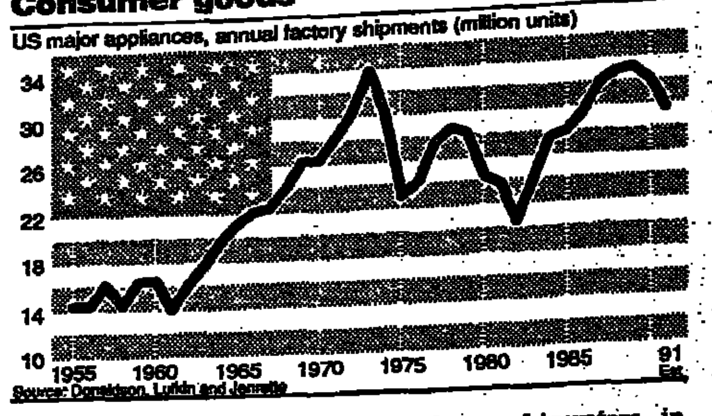
This underlines the importance of product innovation in slack markets. When consumers do not *need* to buy, they must be persuaded to. In Japan, as well as in Europe, multi-door refrigerators in which compartments are kept at closely controlled temperatures are benefiting from increasing sophistication about food and concern about safety.

Despite the challenge of making products more "green" – replacing CFCs in cooling systems and insulation, improving energy efficiency and reducing water use and pollution – environmental concerns may give manufacturers one of their best selling points of the 1990s. If, that is, consumers are willing to back *their hearts with cash.*

Clay Harris

Consumer goods

US major appliances, annual factory shipments (million units)



Source: Donaldson, Lufkin and Jenrette

War may boost orders

WORLD construction markets have entered the 1990s at a crossroads in their development. The modest recovery in international orders during the *past three years is in danger of* being reversed as Europe, north America and Japan struggle against the threat of recession, and the Middle East against the threat of war.

A war with Iraq, conversely, could boost construction orders as spending on defence increases. Other Middle East states, fearful of unrest within their own borders, might step up investment on new infrastructure – particularly if oil price rises substantially increase their spending power.

Yet in the short term spending may be curtailed while uncertainty remains as to how *the conflict will be resolved.*

Several large US construction groups which were highly successful in the Middle East when this market was at its *zenith in the late 1970s* are now preparing in case there is a resurgence of construction demand in the region.

Though eastern Europe and third world countries also need investment in infrastructure and new industries, these nations have no money to pay for it. Western banks are reluctant to finance all but a few *well-researched projects which* have the potential to earn hard currency to repay debts.

John Brown, the engineering arm of Trafalgar House, and Taylor Woodrow are two UK groups that have won work in the Soviet Union on this basis. Cogefar is among several large Italian companies with contracts in eastern Europe. But opportunities to tender remain thin on the ground.

The growth markets for construction exports during the late 1980s have been western Europe and fast-growing economies in south-east Asia. However, these countries have failed to offset the sharp decline in international orders from elsewhere in the world.

Contractors in the UK, where construction output has *risen every year since 1981*, have become increasingly reliant on the domestic market for work. Now, as in the US, the market in the UK, where several continental and US groups have set up operations or taken strategic stakes in local contractors, has turned down very sharply as interest rates have risen and economies come under pressure.

A survey of the world's 250 biggest international contractors by ENR, the authoritative international construction *magazine published in the US* by McGraw-Hill, showed that cross-border orders rose by almost a fifth in 1989 following a 27 per cent increase in 1988.

The value of *international* orders won by the 250 companies in 1989 was $112.6bn. This was well below the peak of $123bn in 1982: the Middle East accounted for over $50bn, or more than a third of all contracts won that year.

The Middle East has now been overtaken by Europe and Asia as the biggest and fastest-growing markets for cross-border contracts. The value of export orders won by foreign *contractors in Europe in 1989* rose by 30 per cent to $25.4bn. This compares with $19.4bn in 1988 and $17.2bn in 1987.

Europe has become the world's largest construction export market, closely followed by Asia where orders rose by 19.5 per cent to $24.5bn in 1989.

The huge changes taking place in Europe, including the planned removal of trade barriers in 1992 between the Community countries, and the easing of economic and political restrictions in eastern Europe, have led to a number of acquisitions, stake building and joint ventures among western European contractors.

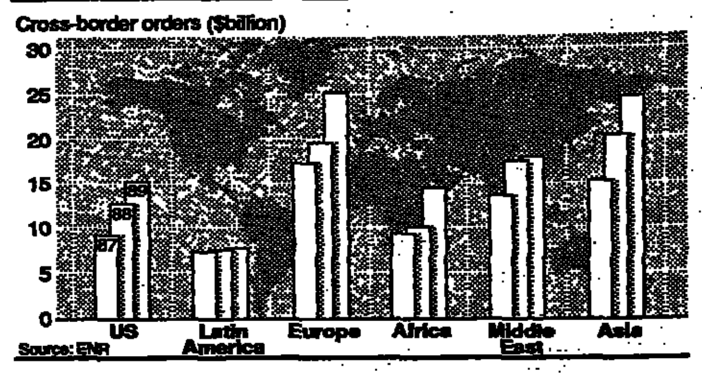
Contractors have become more sophisticated in raising private sector finance to fund work which might otherwise not have taken place – recent examples of such infrastructure projects include the Channel Tunnel, toll roads in Indonesia, petrochemical plants in the Soviet Union and transport schemes in Hong Kong.

Hong Kong remains a very active market for overseas contractors but there are fears that this work could tail off the closer the colony gets to hand over to the Chinese in 1997 – notwithstanding plans for a £5bn new airport at Chek Lap Kok off Lantau Island.

Andrew Taylor

Construction

Cross-border orders ($billion)



Source: ENR

Continued on Page 21

A shortage of resources is hampering industrial progress, **Page 2**

MOZAMBIQUE

Ceasefires along the rail lines may open up some transit routes, **Page 5**

Negotiations to end a 15-year civil war are under way and Mozambique is moving towards a mixed economy and a multiparty system. However, the rebuilding of a devastated country which is dependent on aid will prove a long haul. **Tony Hawkins** reports

First steps on road to peace

AMID cautious hopes of a negotiated end to Mozambique's 15-year civil war, President Joachim Chissano's energies are focused on winning at the polls the victory that eluded him on the battlefield.

Peace would end an ordeal that has forced some 3m people to flee their homes and left over a quarter of the country's 15m population desperately short of food.

So far, however, all that has been achieved after a year of informal contacts, mediation and direct talks is a partial ceasefire covering the Beira and Limpopo transport corridors.

It could yet fall apart. If the Renamo rebel movement believes – as do many observers – that it will lose the elections that Mr Chissano wants to hold in mid-year, then it will have little incentive to co-operate at the negotiating table.

The rebels have already made one important concession which augurs well for the future. They dropped their original demand that the 8,000-10,000 Zimbabwean troops, who have been supporting the government be sent home. Renamo agreed instead to their being confined to the two corridors.

However, the critical test will come at the next round of talks, due to take place later this month, for the participants will be tackling the thorny problem of access to power. There are many hurdles to be overcome: the nature of the electoral process, the timing of elections, control of the administration during a transition and access to the media.

Once these issues are resolved – which could take many months – the two sides will still have to agree a country-wide ceasefire and a plan for the integration of their two armies.

Hopes of a successful outcome rest largely on sheer war-weariness on the one hand and the withdrawal of foreign sponsorship on the other. In the past 18 months, each side has lost its main foreign paymasters with the withdrawals of South Africa, the Soviet Union and the former communist governments of eastern Europe.

The ruling Frelimo party, however, can still call on the increasingly reluctant Zimbabweans, though for how much longer is unclear.

Recently, Frelimo has had the upper hand, both militarily and in the peace negotiations. The astute Mr Chissano has outmanoeuvred Renamo, shooting both its main foxes – the one-party state and the Marxist-Leninist economy.

With a reborn Frelimo, committed to multiparty democracy, a market economy and introducing a new constitution with which few can quarrel, Renamo (which has never had a coherent political programme) has little to offer the electorate.

Initially the creature of Rhodesia in the 1970s and latterly of South Africa, Renamo has murdered and brutalised its way to the negotiating table. Westerners find it inconceivable that such a party, drawn from the ranks of a rag-bag guerrilla army, could win free elections.

The odds are not all stacked against Renamo. There are disaffected groups, especially in central Mozambique, and Renamo has exploited regional and ethnic tensions. Intimidation is bound to feature in the elections and Frelimo can hardly expect to escape all blame for the deepening social misery of the last 15 years.

As the aggressor, Renamo holds one powerful card: only when it agrees will the war end. The option to go back into the bush and resume the struggle remains open. Renamo might win votes not because it has a popular programme but because it convinces voters that it is the only party capable of delivering peace.

This is the one advantage that Renamo still has and it is difficult to see how Frelimo can counter it, other than by winning the war.

While the people may blame Renamo for the war, Frelimo's *volte face* on economic policy is an admission of responsibility for much of the hardship people have suffered.

It is still early days. Mr Chissano's hopes for a mid-year poll seem impractical, and elections are unlikely to be held before mid-1992 at the earliest. However, there are no signs of any electable third force emerging to draw votes from those who have had enough of both sides.

For all the domestic respect and international acclaim that he commands, President Chissano has his own image problem. The core ideology that sustained the party through the revolution and the war against the rebels has been turned on its head.

A partial ceasefire has raised hopes for an end to Mozambique's civil war. With peace would come a revival of agriculture, the mainstay of the economy, and the ports and railways could begin to reap the benefits of a rehabilitation programme

His critics accuse him of betraying the socialist revolution of Samora Machel, Mozambique's founding president who died in an air crash in 1986; of economic and social mismanagement on a breathtaking scale; of corruption and of presiding over the "re-colonisation" of Mozambique – today by the donors and tomorrow by private foreign capital .

It is ironic that the Marxist quest for self-reliance should have left the economy so heavily dependent on aid. It has turned the economy into "the Donor's Republic of Mozambique". The tag is more than just a cynical gibe. It is a fact of life.

"Our oil import bill alone will exceed export earnings in 1991", says industry minister, Mr Antonio Branco. Aid inflows of more than $1bn a year will be needed throughout the 1990s. Aid on such a scale – 76 per cent of gross national product – carries a health warning; it is nothing if not addictive.

Maputo businessmen rank projects less by their viability than by their eligibility for aid – capital or foreign exchange. A project is a good one if there are Italian, Swedish or Dutch funds to support it.

Chasing the donor dollar has become the most important game in town, whether one is a Mozambican businessman or a foreign salesman. The result is a dependency culture that is the very antithesis of what aid is supposed to achieve.

The ultimate irony is that those who bang the market economy drum the loudest – the donors – are the very ones making investment decisions on the basis of domestic political criteria quite unrelated to market considerations.

Funds are allocated because they fit the donor flavour of the year – be it human rights, the role of women, environmental protection or the informal sector.

Sadly, there is no other option on the table. The economy is in ruins; almost two-thirds of the population live in absolute poverty, meaning that they spend at least 60 per cent of their incomes on food. There are 1.2m refugees, mainly in neighbouring Malawi, and another 1.75m displaced people within Mozambique.

Finance minister Mr Magid Osman believes that the war has cost the country $15bn. The education system is in tatters; three quarters of primary (3,200) and 15 per cent of secondary schools have been destroyed. Last year, 40 per cent of the school-age population had no access to schools, while another 40 per cent are illiterate when they leave school.

The average age of the vehicle fleet is 20 years; only half the paved roads and 15 per cent of gravel roads are in good condition. Foreign earnings from transport – the ports and railways – fell from $112m in 1981 to an annual average of $20m in the last three years.

The constraints on development are obvious: the war and the run-down infrastructure; acute shortage of skills of all kinds; the shallow state-dominated financial system; tiny domestic market; and an unsustainable foreign debt and external payments situation.

The only solution is economic aid along the lines of the Marshall Plan. The priorities are clear – end the war, revive agriculture, *inject* large amounts of foreign capital to rehabilitate the infrastructure, train the workforce and repay the debt; dismantle controls, privatise state enterprise and encourage foreign investment.

Mozambique has been a model pupil for the International Monetary Fund and the World Bank; it looks to them and the wider donor community to deliver. They, in turn, know that if they bungle this one, what remains of their reputation after a disastrous decade in Africa will sink without trace.

Just as South African destabilisation has done so much damage to Mozambique's economy, so developments in South Africa could now help to transform it.

If the economic powerhouse next door prospers, Mozambique is the one country in the region most likely to benefit – from transport, tourism, investment and exports.

Even if all goes to plan – with the peace talks and with the economy – it is still going to be a long haul. It will take 15 years for living standards to return to their pre-independence levels. However, this will only happen if the donors continue pumping $1bn a year into Africa's poorest economy.

IN THIS SURVEY

Editorial production: Phillip Halliday

A revision of political thinking offers hope, writes **Julian Ozanne**

Painstaking search for peace

IT was a sunny afternoon at *Mbuyanguana, on the outskirts* of Maputo, when Renamo rebels burst into a wedding party firing AK47 assault rifles. Four people were murdered, four were injured including the groom and 25 children were kidnapped and taken into the *bush*.

This recent attack, as senseless and cruel an any other in *Mozambique's 15-year-old civil* war, demonstrated once again the failure of the Mozambican army to defend innocent civilians even within the vicinity of the capital.

However, for the first time since independence in 1975 there are real possibilities for an end to the conflict which has made 80 per cent of the country insecure, destroyed billions of dollars of infrastructure and forced more than a million people to flee their country's borders.

In the past two years, President Joaquim Chissano has searched painstakingly for a political solution which would bring an end to the civil war and give his impoverished country hopes for economic revival.

Since 1988 his achievements have been remarkable. He abandoned the rhetoric of the past which branded all rebels as traitors and bandits and shed the naive belief that a military solution was possible. He launched a successful international diplomatic effort to isolate Renamo, backed first by white Rhodesia (now Zimbabwe) and until last year by South Africa. He has opened peace talks with the rebels, holding four rounds of negotiations within the last seven months.

He *has steered* the country further away from its traditional Communist bloc alliance *and edged his once rigidly* Marxist-Leninist Frelimo party away from socialism and a *monopoly of state power* towards a liberal multiparty system in spite of hardline *opposition.*

The crowning achievement of this process of political transition was *the* new constitution which came into effect last month. It committed the country to a mixed economy, freedom of the press, an independent judiciary and multiparty elections. It also marked the culmination of a radical policy review begun by the late President Samora Machel in the 1980s who started the process of reform as the economic failures became apparent.

By meeting all the main political demands of Renamo, Mr Chissano's rapid offensive has called the rebels bluff and caught them off-guard. He has challenged them to surrender their weapons, form a political organisation and contest power and their popularity through the ballot box. With no test of public opinion it is unclear how much support either side has in the countryside.

Signs of Renamo's trepidation in giving up the armed struggle and their increasingly weakened political position have been amply demonstrated recently as the rebels have been reduced to criticising the methods of Mr Chissano's reform rather than the substance.

Some political observers fear that Mr Chissano has gone too far too quickly leaving the rebels little room to manoeuvre and even less chance of being able to come out of the conflict with any credibility.

A partial ceasefire was negotiated last month under which *the 7,000 Zimbawean troops* stationed in Mozambique to support the government are *being confined to the transport* corridors linking Zimbabwe to Maputo and Beira. An international monitoring commission, including Renamo representatives, has been set up to oversee the agreement.

More talks were scheduled this month between the government and the rebels and observers believe the government is determined to get a full ceasefire agreement by April. But obstacles remain.

For Renamo to give up their arms, they must have at least the glimmer of winning power. For the moment, all cards seem to be in Frelimo's hands, particularly given its extensive political organisation throughout the country.

Renamo appears nervous of calling for a cessation of the conflict because of the very real possibility that such a move would be ignored and expose the rebel's lack of control over the bulk of their fighters and the degree to which many of them have abandoned a disciplined political struggle for armed banditry against the civilian population.

Even if Renamo and the government can agree on a compromise acceptable to both sides insecurity will continue to plague the countryside for many years. Integration of the rebel forces into the army will prove difficult.

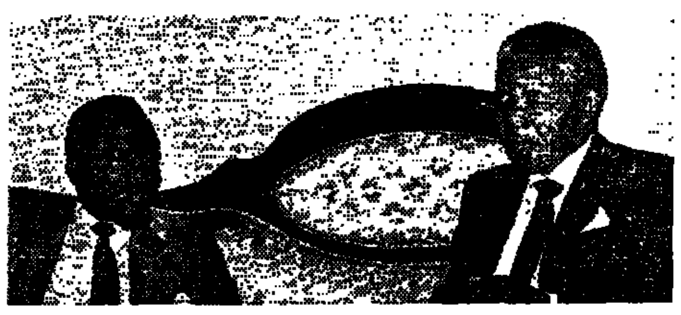
Furthermore, whether multiparty elections can produce a stable political order remains highly questionable. Before Mr Chissano's conversion to pluralist democracy he, and many senior Frelimo figures, were concerned about the possible eruption of tribalism.

A *negative strain* of black Mozambican nationalism has emerged in parliamentary *debates on the issue of nation*ality. At least one of the embryonic political parties, the *liberal* and democratic party (palmo) has launched a political critique of the government on the grounds it has given preferential political and economic treatment to indians, whites and people of mixed race.

At a recent press conference Mr Chissano acknowledged *that the decision to opt for a* multiparty democracy was not without dangers. He confirmed that the decision had been taken against widespread opposition among ordinary people in the rural areas. But argued that the "the choice of a multiparty democracy results from the need to provide a new dynamic to the political process."

His vision in that respect will bode well in the interna*tional aid community, which is* increasingly pressing the issue of democratisation in Africa, where, in contrast to other leaders on the continent, he is seen as a willing, rather than a reluctant, reformer.

It is still very early to judge the prospects for political transition in *Mozambique.* But *it is* clear that the fundamental revision of thinking in the last two years *has* given the country a chance, in spite of large difficulties, of climbing out of the quagmire *into which it has* slid.



President Chissano's first meeting with Nelson Mandela, the vice-president of the African National Congress, in Zambia

INDUSTRY: skill shortage slows progress

Difficult year ahead

MANUFACTURING is unlikely to play more than a secondary role during the next decade. *An overvalued currency,* a small domestic market and an acute shortage of managerial and technical skills will ensure that industrialisation is a very slow process.

Prior to 1987, few consumer items were available in rural areas, and then only at exorbitant prices. Securing the desired supply response in *agriculture will partly depend* on access by peasant farmers to moderately-priced consumer *goods* and production *inputs.* Industry's immediate role is to satisfy these needs as well as *processing* farm production.

Its share of gross domestic product is 17 per cent – down from 23 per cent *10* years ago. In 1989, manufacturing output was 30 per cent below its 1980 *level,* though *it had* recovered some of the ground lost prior to 1986. Since then, production has been growing at 7 per cent a year though there was an interruption last year when activity was curtailed by frequent power cuts caused by *rebel sabotage.*

In spite of this, capacity utilisation is back to 50 per cent from 30 per cent in the mid-1980s though much of this capacity is more theoretical than real since the productive base has suffered from neglect, lack of spares, and insufficient maintenance, not to mention war damage.

Some two-thirds of produc*tion* is in three main sectors: food, beverages and tobacco *account for a third, clothing* and textiles for 18 per cent and fisheries for 12 per cent.

There are *two main immedi*ate policy priorities.

Restructuring state enterprise heads *the agenda.* Ten years ago, four-fifths of industrial output was carried out by *the state,* but today *it is less* than half. Mr Antonio Branco, the industry minister, says the public sector share will be cut to "almost nothing" as privatisation proceeds. Privatisation is partial, with the state retaining a minority stake but giving *management* control to the new owners.

Secondly, the shortage of resources – capital, *skills and* management – has forced the government to select its preferred industry sectors. Although such a task is inherently risky, the very limited options available to Mozambique *simplify* the task. Agricultural-related activities figure prominently in the preferred sectors along with "basic *needs" consumer* goods, (clothing, textiles, footwear, household goods) and construction *materials and farm* implements.

Not surprisingly, recent *industrial projects fit this pat*tern. Mr Branco says his ministry has given the go-ahead for *12 medium-scale consumer* industries each with an investment of some $250,000 – in clothing, footwear, textiles and prefab housing materials.

Textile factory in Nampula

Rehabilitation work is under way at the Matola cement plant where there are plans to expand output five-fold to 600,000 tonnes a year. A new cement factory, supported by the Germans, is under construction at Tete.

Some companies have even managed to break into export markets. The Portuguese group, Amorin, has taken a 55 per cent stake in the Mabor tyre company. It plans to produce 800 tyres a day, of which a third will be exported. The Agro-Alpha agricultural equipment factory has won a $1m order to sell farm equipment to Angola.

An end to the war will *enable* industry to grow much more rapidly – possibly expanding at 10 per cent a year *from 1992 onwards.* The current year threatens to be a difficult one for industrialists as energy *supplies will remain* tenuous. However, companies are more troubled by policy shortcomings: a tariff structure that taxes raw material imports; free entry for manufactured goods supplied under aid programmes; processed foods brought in as part of the emergency relief programme and sold cheaply or even distributed freely; the smuggling of low-price goods from South Africa and Zimbabwe.

Given this kind of competition – and the threat of aggressively-priced imports from South Africa – establishing new industries and reviving existing ones is not going *to be easy. Further substantial* devaluation will help manufacturers who rely on domestic raw materials. However, tariff reforms and the treatment of donor-funded imports will also be needed.

Tony Hawkins

ENERGY: hydro-electricity potential lifts long-term prospects

Export plans shape future

ENERGY has been a much-troubled sector since independence.

Not only has repeated sabotage of the transmission lines prevented Mozambique from exporting electricity to South Africa, but it also played havoc with industry, especially in the Maputo area, last year. However, in a country that has greater hydro-electric potential than any other in Africa, the long-term prospects are exceptional.

It is not just electricity that is set to become a large export earner. Coal reserves in Tete province are estimated at more than 6bn tonnes.

Only the Moatize mine is currently being exploited with an annual output of less than 1m tonnes. The ambitious $1.5bn Moatize project – an open pit mine, a refurbished railway line *to Beira* and a coal export terminal at the port – could create export capacity of some 8m to 10m *tonnes annually.*

A joint feasibility study is under way by the Ministry of Mineral Resources, Lonrho and the Brazilian Companhia Vale do Rio Doce (CVRD). More recently, Trans-Natal Coal of South Africa agreed to participate. The study should be ready by the end of 1991 and exports of at least 5m tonnes a year are possible from 1995.

A project study by Bechtel, the US group, in 1972 of the Pande Natural gas field, has been revived. The original plan was for an investment by Anglo American in a project to pipe the gas to the Witwatersrand industrial area in South Africa.

Natural gas could be used to feed a fertiliser plant and to provide energy for industry in the Maputo area. Detailed exploration was disrupted by Renamo, but with two Portuguese groups showing interest along with Montedison of Italy, officials say the project could soon be given the go-ahead.

In the 16 years since independence five multinational oil companies have spent *more than $60m on exploration but there* have been no large finds.

Seismic surveys suggest that the country *has the potential to be self-sufficient* with a modest export surplus. The best prospects are the Rovuma Basin near the Tanzanian border, being investigated in a joint venture with Tanzania and off the Gaza coastline.

It is electricity that holds the key to substantial export earnings from energy. The Cahora-Bassa dam has a capacity of MW2,075 of which almost MW1,900 is earmarked for South African usage. The rehabilitation programme planned for 1990 will start this year as more than 1,500 pylons having been destroyed by Renamo.

New plans provide for a triangular grid feeding Zimbabwe as well as South Africa and Mozambique. Once security conditions permit, a new 350 km line costing $150m will be built to Zimbabwe.

This development is only the tip of the iceberg.

A 1981 *study* identified 13 *additional* projects along the Zambesi river, including phase two of Cahora Bassa, with an *aggregate capacity of MW5,000. These* projects which would take a generation or more to complete have the potential to transform the economy – through irrigation schemes at home, electricity exports and, of course, cheap energy for domestic industry.

Tony Hawkins

Plans to revive one of the world's poorest economies rely on foreign aid. On this page, **Tony Hawkins** assesses the outlook

Donor policies face another African test

A SENSE of mission impossible surrounds the ambitious plans for economic recovery in Mozambique.

Will aid inflows of over $1bn a year turn around one of the world's poorest economies with a per capita income below $100, a scheduled debt-service ratio of 175 per cent and a current account deficit exceeding 50 per cent of gross domestic product.

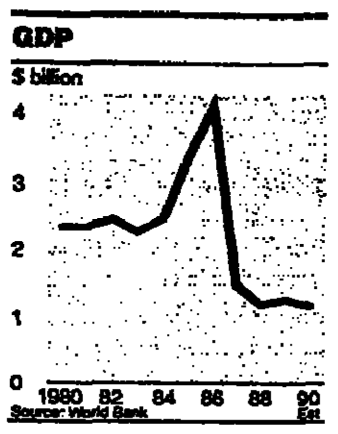
Fortunately, there is no shortage of ideas and commitment, nor it seems, of aid.

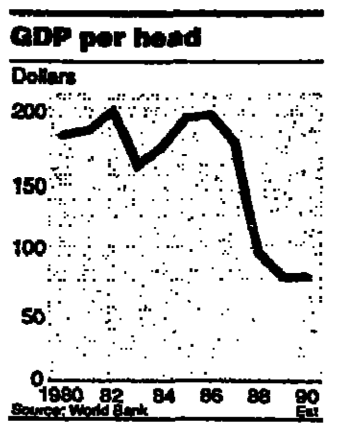
At the Paris Consultative Group meeting last month, Mozambique was pledged the $1.2bn it needs to see it through 1991. For the rest of the decade, it is destined to be an economic laboratory experiment in which the strategies and ideology of the donor community, the World Bank and IMF will be on trial.

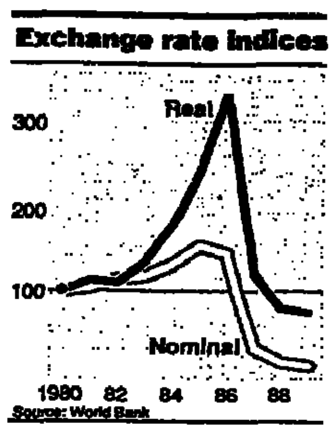
With a decade of African failure behind them, they desperately need success – proof that structural adjustment can work in Africa.

Given a peace settlement, Mozambique will provide evidence, one way or the other, of the viability and appropriateness of donor policy towards Africa.

The contrasts with many other African countries are striking; President Chissano is not only taking the reformist medicine but also buying the "good governance" solution. Unlike sub-Saharan governments, the Mozambicans are more concerned with making the policies work than justifying their failures and blaming the doctor.







Inevitably – in the light of the war, the collapse of administration and the state of the infrastructure – there is slippage. Some targets have been missed, but reform, political as well as economic, is pretty much on track.

Abandoned by its erstwhile East European and Russian allies, Mozambique had little option other than to submit to donor economic and political conditions. Having made that unpalatable decision, the Mozambicans are sticking by it.

The underlying strategy is three pronged: the agricultural sector; the establishment of an enabling environment and an assumption that substantial external finance will be available. It is agriculture, and specifically the family sector, that is the key to recovery.

It is also the sector where poverty is most acute and where the greatest gains can be made with limited amounts of investment. Investment in the transport and marketing infrastructure and the liberalisation of crop pricing with linkage to border parities are crucial. The reform of farm credit mechanisms, which presently bypass the peasant sector, is another important factor.

The second prong, establishing an enabling environment, involves rolling back the frontiers of the state and creating a viable private enterprise economy. The government that once espoused hardline Marxist-Leninism is privatising as fast as it can. Since 1987, the number of state farms has been reduced to 109 from 150 and the area farmed by the state is down to 90,000 hectares from 150,000.

Some 50 medium and large manufacturing enterprises and many more smaller ones have been privatised. Five management contracts have been signed with companies that will remain in state hands.

Banking is being restructured and new financial instruments developed. State concerns can no longer rely on state-owned banks to fund their losses. The foreign payments system is being liberalised by allowing Standard Totta, the sole privately-owned bank, to undertake more foreign currency transactions.

A second tier foreign exchange market was launched late last year allowing importers to buy foreign currency, paying 1,800 meticais for the dollar rather than official rate of 1,000. Import controls are being loosened with the creation of a non-administrative system of import allocation known as SNAAD.

SNAAD was established in September 1989, it handled only 3 per cent of total imports (about $30m) last year, but the government is asking donors to untie their aid programmes from specific projects, products and suppliers and channel the funds into SNAAD so that more imports can go on to open general licence.

Progress on the budgetary front has been considerable: the fiscal deficit is down to 10 per cent of GDP from more than 15 per cent five years ago. Domestic bank financing of the deficit has been slashed to 1 per cent from 12 per cent; subsidies are being phased out and public utility charges raised to realistic levels. Electricity and water tariffs were increased by 25 per cent to 65 per cent in 1989 and there was further 20 per cent rise last year.

The third prong is the assumption that substantial external finance will be available, at least for the rest of the 1990s. The foreign debt overhang is unsustainable and will have to be relieved by forgiveness and rescheduling. Mozambique's external debt has more than trebled in the last eight years reaching $4.6bn in 1989. Over the next three years, foreign financing requirement averages $1.2bn of which some $850m a year is needed to fund the current account deficit and the balance to repay loans. Debt relief of at least $250m a year is crucial to the plan's success.

Exports and service earnings collapsed from $450m in 1980, to only $185m in 1985. Last year they were estimated at $300m, compared with current account outgoings of $1.15bn and debt repayments of a further $300m, leaving an overall financing of nearly $1.2bn.

The port of Maputo is making its own efforts to reduce aid dependency by increasing exports. Although the metical has been devalued from 40 to the dollar in 1986 to 1,000, there are still large discrepancies with the second tier rate (1,800 to the dollar) and the parallel or black market rate (2,300). The medium-term plan is to narrow the gap between the first and second tiers, implying further large devaluations in 1991 and 1992. Competitiveness has improved – the real effective rate was down to 70 (1980 = 100) at the end of 1989 from 330 in 1986.

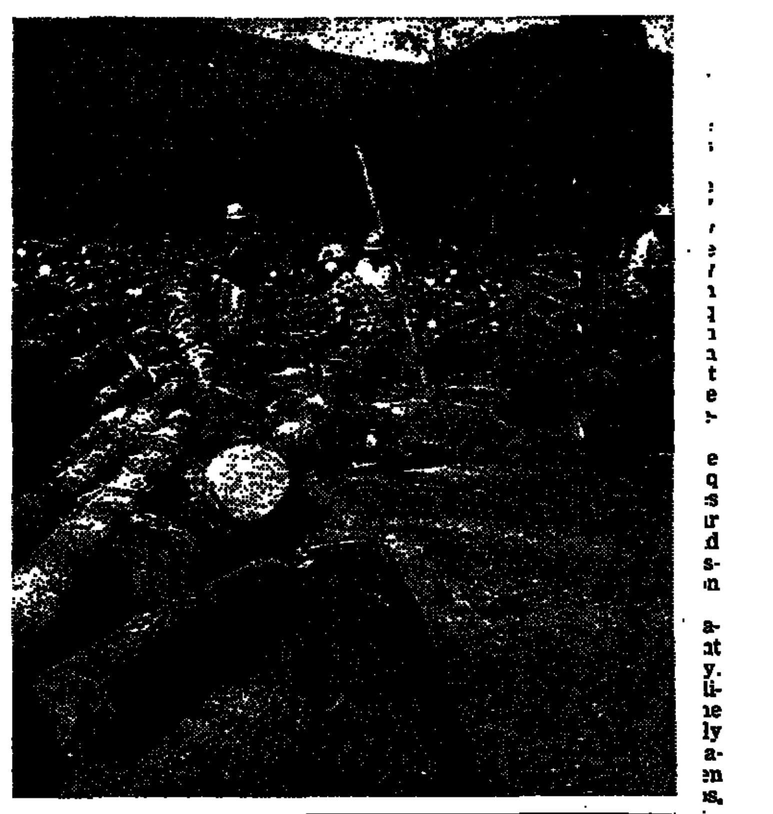
Exports are projected to grow twice as fast as imports – 17 per cent as against 7 per cent. In spite of this the import share in GDP will continue its inexorable rise to more than 72 per cent, and the current deficit will increase. Because reconstruction and growth are heavily import dependent, there is no viable alternative development strategy.

Devaluation helps little when the structural obstacles to export growth are so enormous. The best answer is lower inflation. This decreased from 160 per cent in 1987 but last year's 30 per cent was well above the 18 per cent target.

Economic growth is forecast at 6 per cent a year after a disappointing 3 per cent in 1990. Finance minister Mr Magid Osman worries that preoccupation with political problems will have adverse repercussions on the economy in 1991, but he believes that with a political settlement in South Africa, Mozambique's economy could grow at 10 per cent a year and exports increase fourfold to exceed $1bn by the turn of the century.

Export growth will come from mining, from the revival of traditional exports such as prawns, cashew, cotton and sugar, from energy and services, especially transport and tourism.

Given debt relief and renewed foreign investment and a modicum of luck, both politically and with commodity prices, the mission begins to look rather less impossible.



Upgrading work at Beira port which is becoming a multipurpose terminal (above). Logging in Manica province (below)

Aid accounts for 76% of GNP

Cash that keeps the ship afloat

IN THE words of a cynical businessman, it has become the "Donor's Republic of Mozambique." It is far and away the world's most aid-dependent economy with official development assistance (ODA) accounting for 76 per cent of gross national product in 1988-89 against a sub-Saharan average of 11 per cent.

Aid provides 80 per cent of foreign exchange inflows compared with 50 per cent for Tanzania, 25 per cent for Kenya and 11 per cent for Zimbabwe.

Comprehensive aid figures are hard to find. The World Bank puts aggregate external capital assistance since 1980 at $8.5bn, though so large were capital repayments that between 1984 and 1989 the net flow of medium and long-term capital was actually negative.

Italy has been the largest player with aid of $1bn over the last five years spread across some 500 projects, 40 of them completed. The Swedes are in second place with $125m and the US comes third with just over $100m. The donor contribution to humanitarian programmes, health and education, and food aid has been outstanding, but the nagging question remains: is it development?

On the strength of Mozambique's experience to date, the answer has to be no. Aid has focused, necessarily, on keeping people alive, keeping the ship of state afloat. Even so, at least 60 per cent of the population live in absolute poverty.

Between 1986 and 1989, net aid disbursements to Mozambique averaged $760m a year. but during the same period, GNP calculated in US dollars, actually fell. Part of the explanation, of course, aside from the obvious one of metical devaluation, is that much of the aid never sees Mozambique but is a book-keeping entry – such as debt relief.

More to the point is whether the aid flows are creating future productive capacity as, for example, in the case of transport corridor rehabilitation. Unfortunately, there is little evidence that when the aid bandwagon moves on it will leave behind it the technical, administrative and managerial skills to exploit the physical infrastructure created.

Nowhere in Africa is what the World Bank calls "the missing middle" – middle managers, privately-owned medium-scale enterprises – less in evidence. Without it, there is a very real danger that the gains from aid will be largely transitory.

Technical assistance accounts for 10 per cent of GNP, but it is far too soon to tell whether the transfer of skills is taking place on anything like the large scale required. Already there are complaints and evidence of "crowding out."

Duty free imports undercut local production; tied aid supplies force importers to use high-cost materials and spares. Access to aid is a disincentive to save, to export, or take risks with private capital. Why should a foreign company invest in Mozambique, when the World Bank or EC is prepared to make the capital available there?

Ironically, the demand for aid will increase with a peace agreement. There are 1.2m refugees and 1.75m people displaced within Mozambique to be resettled; no-go areas will be accessible once again and the rate of rehabilitation spending will accelerate. Over the next three years, Mozambique will need about $1.2bn a year to repay its debts and finance its current account deficit. Donors will be called upon to provide $500m annually in grants, $300m in loans and a further $300m in debt relief.

The reform of the banking system is proving a painful process

Market replaces the bureaucrats

THE banking system is in the throes of painful transition as the market gradually replaces the bureaucrats.

Before reform started, interest rates were kept low to encourage investment. The central bank had a monopoly over foreign exchange transactions, while the banks propped up inefficient state enterprises and farms and financed the budget deficit. Savings mobilisation had a low priority.

The banking system, which contains just three banks, is dominated by the Bank of Mozambique (BM). It doubles as the country's chief commercial banks as well as the central bank and accounts for two-thirds of bank lending.

The development bank – Banco Populo Desenvolvimento (BPD) has 20 per cent of bank lending, while its farm-lending subsidiary, Caixa Credito Agraria de Desenvolvimento Rural (CCADR) has 9 per cent.

The country's sole privately-owned bank, Banco Standard Totta Mozambique (BSTM) – in which the Portuguese-based Banco Totta and Acores has a 40 per cent stake and Standard Chartered 35 per cent – has more than doubled its market share in the last two years to 7 per cent.

When the reform programme was launched in 1987, it was apparent that the banking system was a bottleneck. A first priority was restructuring the state-owned banks. In 1987, one-third of the Bank of Mozambique's lending took the form of non-performing loans to state enterprises, while in BPD's case the comparable figure was 28 per cent. Most of this has been taken over by the state or rescheduled.

Interest rates came next. Although they continue to be administered rather than market-determined, they have been raised to within hailing distance of the inflation rate. In foreign transactions, BSTM is being allowed to widen its foreign exchange range of customers and functions.

A second-tier foreign exchange market was opened late last year, though this remains in the hands of the BM. The commercial and official functions of the Bank of Mozambique are being separated. By mid-1992, the commercial arm will be independent of the central bank.

As with most transitions, the process is uneven and, at times, contradictory. Excess market liquidity, caused by the war, state loans to state enterprises and, more recently, counterpart funds – the meticais equivalent of aid inflows – is a serious problem and credit ceilings are used to curb credit growth. BSTM will not take new deposits, partly because it is flush with cash but also because it cannot expand lending by more than 20 per cent annually.

The present system is an uneasy compromise between market forces and direct controls. Thus, 90-day deposit rates of 27 per cent are set just below the estimated inflation rate of 30 per cent, while there is a three-tier system of lending rates.

Loans for priority activities, such as agriculture, agro-processing and electricity distribution range between 27 per cent and 31 per cent; mining, manufacturing, fishing and construction pay between 30 per cent and 35 per cent and low-priority activities such as distribution and services pay from 36 per cent to 42 per cent.

The family sector of peasant producers, seen as the key to rural revival, is starved of credit. Because they have no collateral, no formal accounting systems and because their assets are so vulnerable to destruction by the rebels, family farms remain outside the formal credit system. Less than 1 per cent of CCADR's loans go to such small-scale producers.

The solution – according to the World Bank – is an indirect one. Establish a viable retail network in rural areas that will sell to family farmers on credit terms. Unfortunately though, 42 per cent interest rates mean that retailers and peasant farmers cannot afford to buy or sell on credit.

Foreign capital is much sought after

UK heads equity inflow table

AS peace prospects brighten, foreign executives are adding Mozambique to the relatively short list of African countries worth a visit.

The country's stock of foreign capital is "guestimated" at some $1.2 bn, owned mainly by Portuguese, British and South African companies.

Since the mid-1980s, Mozambique has set its cap at foreign capital, introducing a foreign investment law, establishing a one-stop investment agency, phasing out controls and privatising state owned corporations. But progress is slow.

The Foreign Investment Promotion Office (GPIE) estimates new investment in foreign-controlled projects since 1985 at $318m. About 40 per cent of this represents "autonomous" or equity investment. Of this almost $100m is new foreign equity and the remainder of $28m is domestic equity invested by joint venture partners. The balance of 60 per cent ($190m) is mainly offshore loan capital.

Because of Lonrho's agricultural and mining activities, the UK heads the league table with 40 per cent of new equity inflows, followed by the US with 10 per cent. South Africa and The Netherlands have 9 per cent each, Portugal 6 per cent.

Invariably, the Portuguese are interested in reviving the businesses they owned before independence. Many of these were taken over by the state – the so-called intervened companies. South African investment is designed to open up new markets and exploit natural resource opportunities.

Investors can reckon on getting an answer from GPIE within three to six months of submitting an application. But the system, while a large improvement on what went before, is not without its flaws.

Its critics say the board is trying to do too much – seeking to invent new projects and find joint venture partners for foreign companies, rather than sticking to its narrow mandate of granting investment approvals. More serious is the complaint that the system of negotiating different investment agreements for each project inevitably means disparity of treatment for different investors. As a result, some feel they are getting a second class rate package, while the flexibility of such case-by-case approvals opens the door to backhanders and side payments.

Three activities dominate – agro-industrial projects, (such as Lonrho's Lomaco development); turnround activities by Portuguese companies reviving intervened companies and service activities (computers, telecommunications, tourism) and business advisory services, in which the South Africans are prominent. GPIE statistics show that 40 per cent of the new foreign capital ($126m including loan funds) has gone into agribusiness, roughly a third into tourism and 18 per cent to mining, including oil and gas.

Because each agreement is negotiated individually, there is no standard incentive package. Typical agreements include a three- to five-year tax holiday, unfettered remittability of dividends; no withholding taxes; no curbs on the employment of expatriates; and access to foreign currency accounts thereby enabling companies to import freely. Expatriates are entitled to tax-free status and can hold foreign-currency bank accounts, not subject to exchange controls.

There is no requirement to share equity with Mozambique nationals but the government prefers joint ventures that ensure that domestic owners hold at least 20 per cent of the equity.

AGRICULTURE: a long wait to reap the harvest of peace

Wilting in the shadow of war

THE sad lessons of Mozambique's disastrous agricultural history since independence in 1975 are on display at a cotton and sisal estate at Namialo, in Nampula province, one of the country's richest agricultural areas.

"This is a museum to Soviet inefficiency and millions of dollars of wasted agricultural investment," said Mr Jose Ferreira Dos Santos, owner of *Joao Ferreira Dos Santos*, a diversified company. "If the Soviets were inefficient in running agriculture in Europe how could they not be in Africa?"

The car in which we were travelling had stopped briefly at a compound surrounded by high wire fence. Inside the rusting skeletons of Soviet made tractors, graders and combine harvesters lay abandoned – an expensive scrapmetal graveyard and a testament to years of agricultural folly.

The years since independence were marked by expensive capital intensive investment in inefficient state farms at the expense of providing infrastructure, services and foreign exchange for commercial and smallholder farmers; collectivisation of the peasantry into communal villages to work on state farms; *application of inappropriate production technology*; poor management; rigid state-determined pricing policies which discouraged smallholder production of export crops and marketing of surplus food crops and the impact of more than a decade of war which has displaced more than a third of the population and destroyed billions of dollars of infrastructure.

At Namialo the sisal plantations are overgrown with bush, many houses have been destroyed by rebel attacks, the hospital and schools are disused and decaying, the old sisal railway track is broken, most of the peasants around the estate who provided the bulk of the cotton have long deserted their land fleeing from bandits and the ginnery or cotton processing factory is in desperate need of rehabilitation. Production has ground to a halt.

It is a pattern repeated throughout the country. By 1985, cotton production was 9 per cent of its 1980 level, sugar 16 per cent, tea and cashew 30 per cent. According to the World Bank, between 1980 and 1986 the per capita production of the family sector of Cassava, Maize, Rice and Sorghum fell by between 25 and 45 per cent and the country became heavily dependent on external aid for food.

Although the war continues making agricultural recovery impossible many of the catastrophic policies implemented in the heady early days of independence have been abandoned, some in the early 1980s, and the Economic Recovery Programme is *focused on the resuscitation of agriculture.*

There is widespread recognition that future growth will depend on agriculture which contributes 40-50 per cent of gross domestic product, provides employment for 80 per cent of the population and contributes 80 per cent of export earnings.


Displaced workers in Zambezia province

Agricultural potential is good with fertile soils, normally adequate rainfall, vast swathes of unoccupied land which could be cultivated, and surface water resources which could irrigate 2m hectares of land. (Only 90,000 hectares of land is currently under irrigation.)

The main shift of the ERP has been to redirect government energy away from state farms towards the private smallholder and commercial farmers in an effort to increase domestic food production and increase exports.

The number of state farms has been reduced from 150 in 1986 to 109 in 1989, their assets broken up and distributed or transferred to the private sector. A number of agricultural joint ventures have been signed recently such as the estate at Namialo where Mr Joao Ferreira Dos Santos has moved back this year with full management autonomy and planted 14,000 tonnes of seed cotton.

Joint venture partners, especially in the cotton sub-sector, are providing the foreign exchange and management needed to restore exports. Lonrho (through Lomarco its joint venture with the government) has made the largest investments producing about 20,000 tonnes of cotton and 8,000 tonnes of tomatoes last year. But security costs, to pay for large *private militias* to guard estates, are estimated to be 15-20 per cent of the costs of production.

The real challenge is in reviving smallholder agriculture – the so called family sector – which traditionally accounted for 90 per cent of cashew production, and more than 50 per cent per cent of cotton, livestock, and copra and most of food crop production.

Much progress has been made on producer incentives. Cashew, cotton and copra and maize have been moved from a fixed price system to a minimum price system. Prices paid for export crops have been increased although they remain undervalued at a level of about 50 per cent of international prices. Producer prices for domestic food crops have been increased at nearer 80 per cent of international prices.

Consumer goods have been slowly reaching rural traders and stores providing better non-price incentives for production. Some imported goods are specifically targeted to coincide with cashew nut and cotton harvesting. Less progress has been made on vital rehabilitation of destroyed and decayed social and economic rural infrastructure.

Without a large rehabilitation of infrastructure and increased security it is recognised that Agricom, the state trading company which handles about 30 per cent of marketed production, will have to continue its role as the buyer of last resort until private traders can be encouraged to reach all areas. Results have been mixed. Agriculture production grew at 7 per cent in 1987 and 1988 but, with poor weather, dropped to 2.3 per cent in 1989.

Production of food crops is difficult to estimate due to the destroyed marketing system and the tendency of peasants to keep surplus production for storage or barter but maize production is believed to have risen 32 per cent between 1987-89.

Last year, marketed maize production was estimated at 78,437 tonnes, its highest level since 1984. However, aid still contributes more than 80 per cent of Mozambique's total grain supply. For 1991, the government is asking donors to provide total food aid of 1.04m tonnes – 65 per cent for the market sector.

On the export side between 1986-89, cotton production increased 192 per cent, cashew 26 per cent and sisal production increased 40 per cent on 1985 levels. Less success has been recorded in copra, tea, and sugar. In 1989, no leading export crop was producing a half of 1980 levels.

Since 1987, government policy towards the agriculture sector has come a long way. On the policy front, continued success will depend on maintaining price and non-price incentives to producers, developing agricultural extension services and rural infrastructure and continuing the commercialisation of the state sector.

If the war continues at its present level there will be modest gains. If a peace agreement is concluded progress will follow quickly. While providing seeds and tools to peasant farmers will prove a big constraint, getting people back to the land and having secure roads and railways will be a revolutionary event. Greater security will encourage increased investment in agro-industry. Agriculturalists predict that with peace Mozambique will become self sufficient in food within two or three harvests and export crops will take off.

Julian Ozanne

Julian Ozanne looks at the rehabilitation of the cashew sector

Project to combat neglect

THE cashew sector, like the rest of agriculture, has suffered badly as a result of misconceived policies and the war. However, a large effort is under way to rehabilitate the crop.

Mozambique was once the world's king of cashew, producing 216,000 tonnes from 60m trees in 1972. In that year, the country exported 69,500 tonnes of raw nuts and 25,400 tonnes of processed kernels.

By 1983, a nadir was reached when *marketed* production slumped to 18,000 tonnes. Since then, cashew nut production has increased slowly and reached about 50,000 tonnes in 1989, as a result of better producer prices and availability of consumer goods. Cashew contributed $18.9m in 1989 to total export earnings of $101.1m.

However, production slumped again in 1990 to 22,200 tonnes as a result of very poor weather conditions, according to Mr Juliano Saranga, the secretary of state for cashew.

The World Bank recently agreed *funding* for a *Special* Drawing Right of $16.8m for a cashew project for Gaza and Inhambane provinces which, it says, is the first phase of a long-term programme to rehabilitate the *sector.*

The project will compliment rehabilitation work under way in Nampula province funded by Denmark and the


Mozambique was once the king of cashew

African Development Bank.

Cashew traditionally has been a smallholder crop providing a cash income to a half of Mozambique farmers who produced 90 per cent of total production intercroping *cashew with staples such* as maize, cassava and cow peas.

State controlled prices and an absence of consumer goods in rural stores encouraged small cashew farmers to eat their nuts or barter them for goods rather than sell them to the factories. The war destroyed the transport and marketing infrastructure and forced farmers to abandon *their trees. Disease and pests* moved in when the farmers quit their trees and many nuts have been left uncollected because of the war.

Cashew production remains constrained by the war and the long-term effect of sustained neglect – *ageing* trees, poor husbandry, lack of new plantings, extension services and research, and incessant bushfires. Yields are estimated to be as low as between 1 kg and *1.5 kg a tree.* Annual average yields should be between 6 kg and 10 kg per tree with proper agrotechniques.

The World Bank project will concentrate on renovation of *orchards*, upgrading of agricultural services, provision of investment credit to commercial farmers and traders, improving the institutional capacity of government bodies in the cashew sector, training and rehabilitation of the processing industry. The projects are expected to lift export earnings by $12m.

Of Mozambique's 14 factories, which have an installed capacity of 150,000 tonnes, only eight are operating, two of which are in private hands. Present capacity is about 80,000 tonnes.

The government is committed to commerc*ialisation of* the cashew sector. State owned factories are to become autonomous entities and joint ventures are being encouraged. According to Mr Saranga, *Anglo-American is negotiating* a deal for two of the six state owned factories. "Management in the *state sector* is the major problem," he admits.

THE PRAWN INDUSTRY

Rare success for the state

SINCE 1982, prawns have been the number one foreign exchange earner regularly bringing in about $40m-$50m. In 1989, the prawn industry earned the country $39.4m out of total foreign exchange earnings of $101.1m.

Mozambique's fishing fleet is small, much of it inherited from Portuguese colonialists *who fled the nation at independence* in 1975. But joint venture and licensing agreements with Japanese, Soviet, South African and Spanish companies have proved remarkably *successful in capitalising* on the fishing resources of Mozambique.

Sound marketing strategies have been adopted in Europe (mostly Spain, Italy and France), Japan and South *Africa. Pescom, a government* owned company which has marketed much of Mozambique's prawn production, has proved one of the rare successes of state enterprise.

The *prawn* industry has been relatively insulated from the effects of the war although shortages of petroleum and power cuts have hurt the sector.

However, there are signs *that the shallow-water* prawn resources may be over-exploited and stocks of deep water prawn, lobster and crab are unknown. Last year, the government again placed a ban *on the fishing of prawns from* December 1 to January 31 in order to allow stocks to recover and increase. The targeted prawn catch for this year has been fixed at 7,500 tons, *slightly less than* that set *for* 1990. The industry is also facing increased competition from farmed prawns in *Asia.*

Foreign investment is being encouraged in the fishing sector, particularly in areas other than prawn. Good resources of crab, lobster, scad, mackerel, anchovy, sardine and tuna are believed to exist. But sea bream, grouper, octopus, oyster, snapper and mussel resources, *mostly in northern* fishing zones, remain particularly under exploited.

Partnerships are being invited for Mozambique's two fish canneries in Beira and *Maputo which remain under* supplied with raw material and trying to develop export potential in crab, clams and other molluscs.

Julian Ozanne

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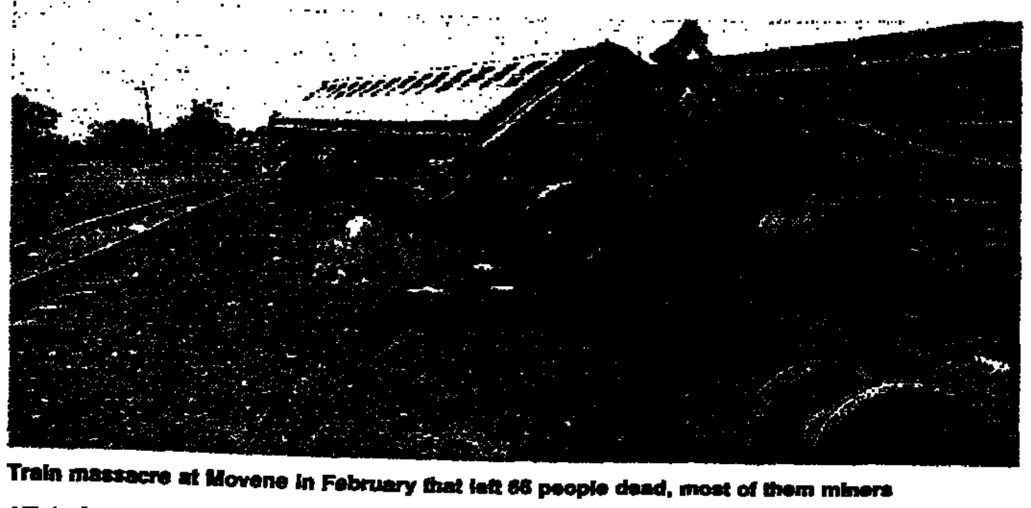
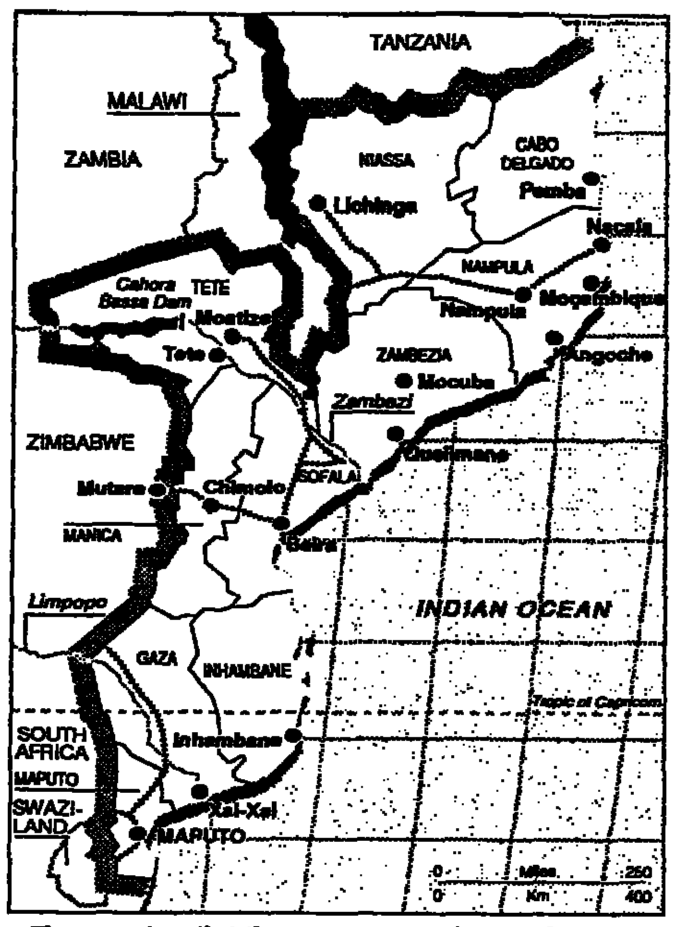
Julian Ozanne examines the attempts to renovate the railways and ports

Ceasefires unlock transit route doors



Train massacre at Movene in February that left 66 people dead, most of them miners



AT A shattered and oil-stained railway workshop in Nampula, the hub of Mozambique's northern Nacala line, mechanics work on engines riddled by bullet holes and bent by fires that were started by rebel saboteurs.

The wreckages of several engines litter the forecourt. Many will never see service again, they will be cannibalised for spare parts and abandonned.

Mozambique's railways, which provide vital access to its Indian Ocean ports for several land-locked African countries, have been the target of rebel attack over the last decade leaving the network almost destroyed.

By 1988, the Nacala line, which serves land-locked Malawi, was moving 12 per cent of the tonnage it moved in 1980, the Beira line serving Zimbabwe and Zambia was down to 32 per cent of 1980 levels and the southern lines connecting Maputo port with South Africa, Swaziland and Zimbabwe were handling 38 per cent of the traffic levels of 1980.

Two sources of transit trade have closed down either due to insecurity or maintenance – the Limpopo line targeted to attract traffic from southern Zimbabwe to Maputo and traffic from Malawi to the excellent deep water port of Nacala.

Total cargo handled by Mozambique's ports and railways fell to 4m tonnes in 1988 from 20m tonnes in 1973. Foreign exchange earnings to Mozambique from its ports and railways, which traditionally plugged the trade deficit in the balance of payments before independence, dropped from $112m in 1981 to $18.8m in 1986.

However, for the first time in a decade hopes are high that Mozambique will be able to recapture its role as an important transit route for regional trade.

A ceasefire for the Beira and Limpopo corridors was agreed in December between the government and Renamo, the rebel movement.

Under the accord Zimbabwean troops protecting the corridors from rebel attacks and sabotage are to be restricted to the corridors in return for a rebel promise not to attack the infrastructure.

The Nacala corridor has been almost completely free of attacks for 18 months, apparently the result of an unofficial agreement, and has been open for Malawi traffic for almost 12 months.

The important Goba and Ressano Garcia lines into Swaziland and South Africa are not covered by any agreement.

However, if the ceasefire accord holds up, greater security for the other corridors will allow faster services and the completion of maintenance and rehabilitation work which may help to win back the confidence of nervous state companies and businessmen in Zimbabwe, Malawi and Zambia.

The prospects for increased security come at a time when large infrastructure renovation projects have made significant progress. On the Limpopo line, a $130m project for a 534 km single line track from Maputo to Zimbabwe which has been closed since 1984, should be complete within the next 18 months.

Rerailing and resleepering work on 321 km of track has been completed southwards from Chicualacuala, on the border, to Chokwe.

Another team working north from Maputo with concrete sleepers and continuous welded track has completed 110 km, leaving just another 100 km to be completed to link Chokwe.

The line is being used for internal commercial traffic but so far no train service has been established to Zimbabwe.

Donors, particularly the British government which has supported the project to the tune of £29m, are pressing CFM, the state-owned railway company, to open a service. This may begin with one train a week to demonstrate the viability of the line and win back much needed confidence in Mozambique.

Work on the Nacala line by a French-Portuguese consortium, which was suspended in 1988 due to insecurity, is to start imminently rehabilitating the 280 km line from Nampula to Cuamba with concrete sleepers and continuous welded track.

A minimal service of one or two every fortnight started operating last year allowing Malawian cargo to reach Nacala.

There are signs that the previous imbalance between imports and exports is being closed, reflecting higher confidence in Malawi about the security of the line.

Substantial renovation and upgrading work has been completed on the $700m Beira corridor programme increasing cargo handling figures, especially from Zimbabwe.

Total traffic has increased from about 1m tonnes in 1986 to 2.6m tonnes last year and work on dredging the 25 km channel has been completed to allow 60,000 ton vessels to use the port.

Rebuilding Beira's 11 berths is expected to be finished by the end of this year and construction of a new oil terminal is to start soon.

Japan, Canada, France and the US have also pledged more than 20 locomotives for delivery over the next three years.

Many of the projects in Mozambique's transport sector have been the result of initiatives launched by the South African Development Co-ordination Conference aimed at reducing the region's dependence on South Africa. With political changes looming in South Africa that strategy is being reconsidered.

Furthermore, their are worries about competition from a more respectable South Africa with more efficient ports and shipping operations.

This is being seriously considered given the inefficient state of management and software at Mozambique's ports.

However, the chances of attracting high value cargo will depend on a much smoother operation and better management at the ports.

BUSINESS GUIDE

City returns to life

FEW capitals in Africa have been through such an ordeal of economic devastation and war-induced decay as Maputo, the Indian Ocean capital of Mozambique built by the Portuguese colonialists as a Mediterranean-style resort city.

In spite of all the traumas of the past 15 years Mozambicans have maintained their pride in the cosmopolitan capital and now, with economic reform and the beginings of new foreign investment, life is returning to the city.

Among the most optimistic signs of renovation in Maputo are the extensive refurbishment programmes due to be completed this year of the Polana (tel 491001-7, tlx 6278), a magnificent white washed seaside hotel built in the style of the 1920s De Luxe hotels on the riviera, the Cardoso (tel 74107, tlx 6327) and the Moçambicana.

All three hotels are privately owned and are being rehabilitated and managed by foreign investors – the Polana, at a cost of R27m, by the South African Karros group, the Cardoso by the Lonrho conglomerate and the Moçambicana by the South African Protea group. Other decent hotels are the Andalucia (tel 23051, tx 6426) and the Tivoli (tel 22005, tx 6297) and in Beira go to the Dom Carlos (tel 711158).

Doing business can be difficult but help and advise can be obtained.

The government's GIPE, foreign investment promotion office, (tel 742173, 422459 tx 6650) is in charge of facilitating and improving all new projects. A private consulting company, SARL (tel 33456, tx 6762) can also aid foreign investors and find local partners for joint venture companies. SARL publishes a fortnightly business newsletter called Mozambique Opportunities.

In agriculture, SAFI (tel 492043) and SCPI would be useful. Other important contacts are the Chamber of Commerce (tel 741970, 491970 tx 6498), UCPI, commodity import programme co-ordinators (tel 420979, 491146) and AIMO, association of Mozambican industries (tel 424659 tx 6220).

Other useful contacts; Ministries: Finance (25071), Commerce (420171), Agriculture (460014), Mineral Resources (424031), Secretary of State for Fisheries (34345), Transport (30121), Industry (31029), Co-operation (490672).

Banks: Banco de Mozambique – Central Bank (424620, tx 6240), Banco Standard Totta – the only private bank (428107, tx 6223), Banco Popular de Desenvolvimento (428892, tx 6250).

Diplomatic Missions: UK (420111-7, tx 6265), US (492794, tx 6143), Germany (742296 tx 6489), France (tel 743444 tx 6307), Portugal (744142, tx 6341), European Community (490266, tx 6146), South African Trade Mission (741404).

Transport: taxis have been scarce in Maputo but a fleet of 400 Peugeot 405 taxis are due for Maputo, Beira and Nampula this year. Cars can be rented from Interfranca (490621), Hertz (491001) and Avis (465140). For internal flights LAM (732141), the national air carrier, runs a regular but often disrupted, service. A recently established excellent private charter company Nat Air (491811, tx 6763) joins other charter companies TTA (465015), LAM (465024) and LOMARCO (422260).

Freight and Shipping: Manica (423080), Mocargo (430859), Navique (423118), Navinter (420983).

Restaurants: increasing business has brought better restaurants such as the Sheik (490197) and Mini-Golf (490282) which have fun discos, Costa do Sol (455115) for prawns and seafood, Maritimo (741345) for weekend lunchtime barbecues and several superb Chinese restaurants.

Boats can be hired at Clube Naval (492121). Other excursions can be booked through Empresa Nacional de Turismo (425011).

Julian Ozanne

KEY FACTS

Area	799,380 sq km
Population	15.3m
Head of State	Pres. Joaquim Alberto Chissano
Currency	100 centavos = 1 metical
Exch Rate (year end)	1,044.64 meticals/$

ECONOMY	1989	1990
Total GDP ($bn)	1.3	1.2
Real GNP growth (%)	4.0	5.6
GDP per capita ($)	80	80
Exports ($m)	+101	+120
Imports ($m)	-775	-870
Trade Balance ($m)	-674	-750
Service earnings ($m)	+156	+180
Outflows ($m)	-224	-280
Current Account Balance ($m)	-752	-850
Capital Account ($m)	+355	+350
Overall Deficit ($m)	-395	-500
Trade Dependency* (%)	67.4	82.5
Inflation (%)	42.1	NA
Debt	1987	1988
Total debt as % of GNP	344.4	436.0
Debt Service as % of Exports	22.6	31.6
Net Flows* ($m)	395	133
Education	1965	1987
% enrolled in primary	37	68
% enrolled in secondary	3	5
% enrolled in tertiary	0	0

* Exports plus imports as % of GNP
* Net Transfers are net debt disbursements minus principal and debt service repayments

Source: IMF, World Bank, Economist Intelligence Unit

MINING

Schemes to tap export potential

MINING, never a big player in the Mozambique economy, is increasingly believed to have exciting potential in a post-war environment. Some of the leading projects on the drawing boards could transform the country's export profile by the turn of the century.

At independence there were some 10 small producing mines. The Moatize coal mine, with 500,000 tonnes annual output, was easily the largest. Tantalum was the only other significant mineral being exploited and mining's contribution to gross domestic product was never more than 1 per cent.

Post-independence strategy focused on geological exploration and the re-evaluation of the existing mines. As the war worsened in the 1980s, exploration was cut back and the mines and their supporting infrastructure were destroyed. Output fell 80 per cent between 1981 and 1985 but has since rebounded – production trebled in 1987/8 but remained 30 per cent below its 1981 peak.

Tax incentives, privatisation and a new state-owned mining development company – Companhia de Desenvolvimento Mineral which will hold the government's mining investments – are the chosen vehicles for reviving the industry. Two small companies, a copper producer and the bentonite mine – have been privatised.

Mozambique has the world's largest known reserves of tantalum. In 1986, production of some 75 tonnes was halted when the mines were seriously damaged in rebel attacks. It will cost $30m to revive them and expand output to 150 tonnes a year by 1992.

New development is spearheaded by two projects to exploit heavy black sands deposits.

Johannesburg Consolidated Investments has taken up an option from the Irish Kenmare group to develop the $103m Congolone project near Angoche in the north. A feasibility study suggested that the project could earn $44m a year from exploiting ilmenite deposits used in paint production and refractories. Edlow Resources, a US company, has a 27-year concession to develop titanium-bearing sand deposits that could justify a $450m investment.

According to the Washington-based Gold Institute, Mozambique and Botswana will be the world's fastest growing gold producers in the 1990s, albeit from a tiny base. Mozambique's production is projected to quadruple from 10,000 ounces in 1990 to 40,000 ounces by 1993. More than $12m, including infrastructure investment, has been spent on Lonrho's alluvial gold mine at Manica, which came on stream last year.

Rockwood Holdings and Cluff Resources, both based in the UK, have 40 per cent stakes in investigating diatomite deposits near Maputo, and over $3m has been spent on modernising the Italian-owned marble plant in Cabo Delgado.

By the mid-1990s, these projects could have an export capacity well above $100m – effectively double the country's 1990 exports.

Tony Hawkins

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